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**HILDALE CITY, UTAH**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



**HINTONBURDICK**  
**HINTON BURDICK HALL & SPILKER PLLC**  
**CPAs & ADVISORS**

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**FINANCIAL SECTION**



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC  
CPAs & ADVISORS

## Independent Auditors' Report

The Honorable Mayor and  
City Council  
Hildale City, Utah

MEMBERS:  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hildale City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Hildale City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Hildale City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of Hildale City's internal control structure over financial reporting and on our tests of its compliance with laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hildale City's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Hildale City (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total net assets decreased by \$899,181 which resulted in total assets in excess of total liabilities (net assets) of \$1,657,002 at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$107,286.
- Total business-type expenses exceeded total business-type revenues by \$1,006,467, which included affiliate revenue and expense of \$6.4 million and \$7.4 million respectively.
- Total revenues from all sources were \$7.8 million, which includes revenue from affiliates of \$6.4 million
- The total cost of all City programs was \$7.0 million, which includes expenses from affiliates of \$5.8 million.
- The General Fund reported excess revenues over expenditures of \$23,211.
- Actual resources received in the General Fund were less than the final budget by \$129,425 while actual expenditures were \$203,286 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$44,322 or 4.64% of total General Fund expenditures, excluding transfers.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

#### **Reporting the City as a Whole**

##### **The Statement of Net Assets and the Statement of Activities (Government-wide)**

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, parks and recreation, highways & streets, and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers to cover all or most of the cost of the services provided.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$2,152,729 as of June 30, 2006 as shown in the following condensed statement of net assets. The City has chosen to account for its sewer operations in enterprise funds which are shown as Business Activities.

### Hildale City Statement of Net Assets

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Current and other assets	\$ 162,292	\$ 188,936	\$ 355,687	\$ 408,048
Capital assets	847,729	823,958	5,475,359	5,527,084
Investment in Affiliate	-	-	18,583,781	19,596,134
Total assets	1,010,021	1,012,894	24,414,827	25,531,266
Long-term liabilities outstanding	95,447	155,751	23,539,485	23,657,656
Other liabilities	117,970	167,825	14,944	6,745
Total liabilities	213,417	323,576	23,554,429	23,664,401
Net assets:				
Invested in capital assets, net of related debt	752,282	668,207	1,750,874	1,684,428
Invested in affiliates	-	-	(1,231,219)	(218,866)
Restricted	-	-	188,522	159,535
Unrestricted	44,322	21,111	152,221	241,768
Total net assets	\$ 796,604	\$ 689,318	\$ 860,398	\$ 1,866,865

### Governmental Activities

The cost of all Governmental activities this year was \$869,649. As shown on the statement of Changes in Net Assets on the following page, \$336,441 of this cost was paid for by those who directly benefited from the programs, \$166,275 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services, but excluding general revenues were \$502,716. General revenues totaled \$474,219.

The City's programs include: General Government, Public Safety, Public Works, Parks & Recreation, and Highways and Streets. Each program's revenues and expenses are presented below.



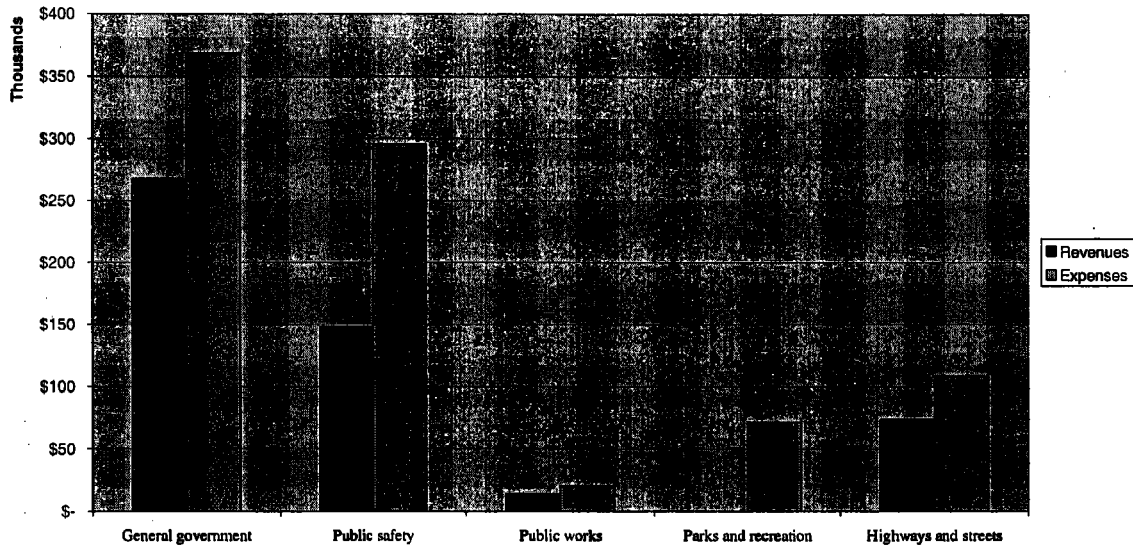
**Hildale City  
Changes in Net Assets**

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
<b>Revenues:</b>				
<b>Program revenues:</b>				
Charges for services	\$ 336,441	\$ 331,901	\$ 370,163	\$ 372,368
Operating grants and contributions	166,275	102,185	-	-
Capital grants and contributions	-	66,379	55,900	-
<b>General revenues:</b>				
Taxes	444,518	335,641	-	-
Impact fees	-	-	2,178	8,112
Town fees	23,959	23,965	-	-
Other revenue/(expense)	5,742	4,090	16,475	2,959,019
Affiliate revenue	-	-	6,451,819	2,573,184
<b>Total revenues</b>	<b>976,935</b>	<b>864,161</b>	<b>6,896,535</b>	<b>5,912,683</b>
<b>Expenses:</b>				
General government	368,330	422,550	-	-
Public safety	294,970	203,709	-	-
Public works	20,129	29,559	-	-
Parks and recreation	71,181	80,720	-	-
Highways and streets	107,987	91,892	-	-
Interest on long-term debt	7,052	7,517	112,257	114,769
Sewer	-	-	326,573	347,944
Affiliate expenses	-	-	7,464,172	4,801,587
<b>Total expenses</b>	<b>869,649</b>	<b>835,947</b>	<b>7,903,002</b>	<b>5,264,300</b>
<b>Increase/(decrease) in net assets</b>	<b>107,286</b>	<b>28,214</b>	<b>(1,006,467)</b>	<b>648,383</b>
<b>Net assets, beginning</b>	<b>689,318</b>	<b>661,104</b>	<b>1,866,865</b>	<b>1,218,482</b>
<b>Net assets, ending</b>	<b>\$ 796,604</b>	<b>\$ 689,318</b>	<b>\$ 860,398</b>	<b>\$ 1,866,865</b>

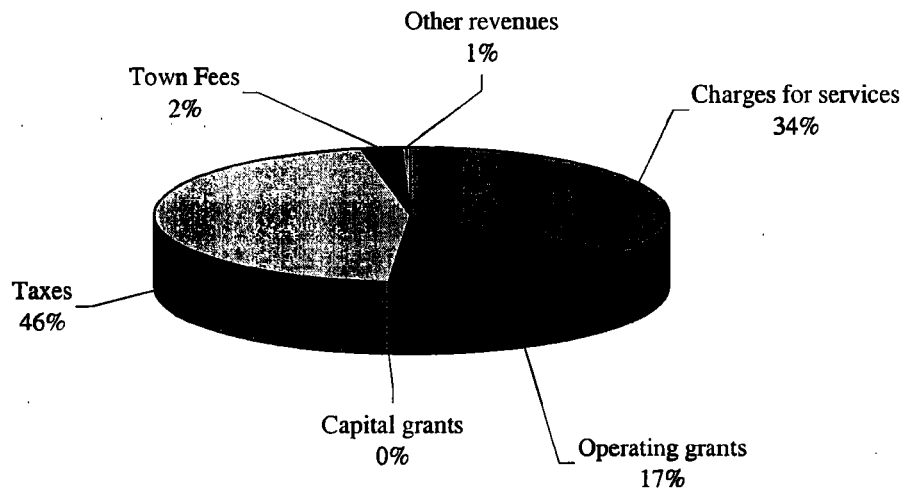
Total resources available during the year to finance governmental operations were \$1,666,253 consisting of Net assets at July 1, 2005 of \$689,318, program revenues of \$502,716 and General Revenues of \$474,219. Total Governmental Activities during the year were \$869,649; thus Governmental Net Assets were increased by \$107,286 to \$796,604.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities (in Thousands)



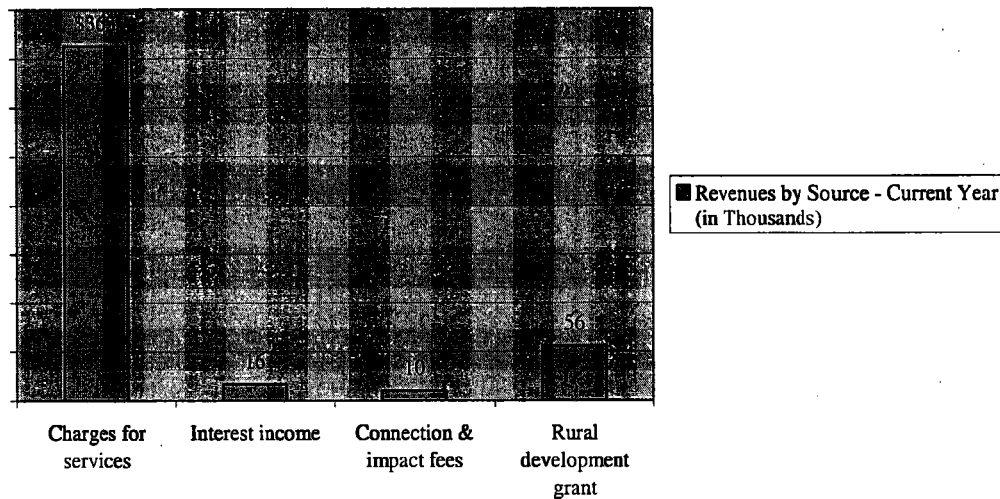
Revenue By Source - Governmental Activities



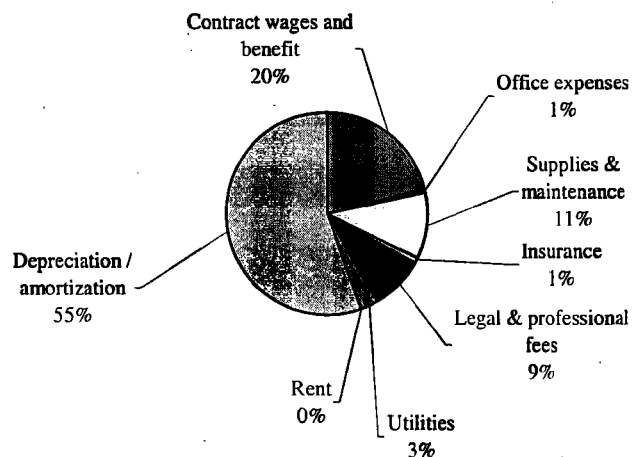
## Business Type Activities

Net assets of the Business Type activities at June 30, 2006, as reflected in the Statement of Net Assets were \$860,398. The cost of providing all Proprietary (Business Type) activities this year was \$7.9 million which includes \$7.4 million of affiliate expenses. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$370,163. Interest earnings were \$16,475, impact fees were \$2,178, grant revenue was \$55,900, and revenues from affiliates were \$6.4 million. Net Assets decreased by \$1,006,467.

Revenues by Source, excluding affiliates - Current Year (in Thousands)



Operating Expenses, excluding affiliates- Current Year



## **General Fund Budgetary Highlights**

The final appropriations for the General Fund at year-end were \$203,286 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for public safety, highways and street, and general government that were carried over to the next fiscal year. Actual revenues were less than the final budget by \$129,425. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2006, net capital assets of the government activities totaled \$847,729 and the net capital assets of the business-type activities totaled \$5.5 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

### **Debt**

At year-end, the City had \$95,447 in governmental type debt, and \$3.74 million in proprietary debt, and \$19.8 million in Affiliate (Twin City Power, Water Departments and Gas Departments) debt. The debt is a liability of the government and amounts to approximately \$10,092 per capita. During the current fiscal year, the City's total debt decreased by \$178,475. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the City Budget for fiscal year 2006/2007, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2005/2006.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, Hildale City, P.O. Box 840490, Hildale, UT, 84780.

**BASIC FINANCIAL STATEMENTS**

**HILDALE CITY, UTAH**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 145,781	\$ -	\$ 145,781
Receivables (net of allowance)	146,766	57,094	203,860
Internal balances	(135,000)	135,000	-
Prepays	4,745	-	4,745
Temporarily restricted assets:			
Cash and cash equivalents	-	163,593	163,593
Investment in affiliates	-	18,583,781	18,583,781
Capital assets (net of accumulated depreciation):			
Land	83,421	364,661	448,082
Buildings	158,059	367,709	525,768
Improvements other than buildings	31,544	4,712,045	4,743,589
Machinery and equipment	120,404	7,910	128,314
Office furniture and equipment	12,349	22,811	35,160
Automobiles and trucks	394,913	223	395,136
Infrastructure	47,039	-	47,039
Total assets	<u>1,010,021</u>	<u>24,414,827</u>	<u>25,424,848</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	97,226	14,944	112,170
Deferred revenue	20,744	-	20,744
Noncurrent liabilities:			
Due within one year	53,667	1,719,261	1,772,928
Due in more than one year	41,780	21,820,224	21,862,004
Total liabilities	<u>213,417</u>	<u>23,554,429</u>	<u>23,767,846</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	752,282	1,750,874	2,503,156
Invested in affiliates	-	(1,231,219)	(1,231,219)
Restricted for:			
Repair & replacement	-	60,500	60,500
Debt service	-	128,022	128,022
Unrestricted	44,322	152,221	196,543
Total Net Assets	<u>\$ 796,604</u>	<u>\$ 860,398</u>	<u>\$ 1,657,002</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 368,330	\$ 267,703	\$ -	\$ -	\$ (100,627)	\$ -	\$ (100,627)
Public safety	294,970	55,080	92,721	-	(147,169)	-	(147,169)
Public works	20,129	13,658	-	-	(6,471)	-	(6,471)
Parks and recreation	71,181	-	-	-	(71,181)	-	(71,181)
Highways and streets	107,987	-	73,554	-	(34,433)	-	(34,433)
Interest on long-term debt	7,052	-	-	-	(7,052)	-	(7,052)
Total governmental activities	869,649	336,441	166,275	-	(366,933)	-	(366,933)
Business-type activities:							
Sewer	438,830	370,163	-	55,900	-	(12,767)	(12,767)
Investment in affiliate	7,464,172	6,451,819	-	-	-	(1,012,353)	(1,012,353)
Total business-type activities	7,903,002	6,821,982	-	55,900	-	(1,025,120)	(1,025,120)
General Revenues:							
Taxes:							
Property taxes levied for general purposes					137,543	-	137,543
Sales and use taxes					232,872	-	232,872
Franchise taxes					74,103	-	74,103
Impact fees					-	2,178	2,178
Town fee					23,959	-	23,959
Unrestricted investment earnings					5,742	16,475	22,217
Total general revenues & transfers					474,219	18,653	492,872
Change in net assets					107,286	(1,006,467)	(899,181)
Net assets - beginning					689,318	1,866,865	2,556,183
Net assets - ending					\$ 796,604	\$ 860,398	\$ 1,657,002

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>		
Cash	\$ 145,781	\$ 145,781
Receivables (net of allowance for uncollectibles)		
Services	103,589	103,589
Leases	5,170	5,170
Due from other governments	38,007	38,007
Prepaid expense	4,745	4,745
<b>Total assets</b>	<u>\$ 297,292</u>	<u>\$ 297,292</u>
<b>Liabilities and fund balances</b>		
Liabilities:		
Accounts payable	\$ 97,226	\$ 97,226
Due to other funds	135,000	135,000
Deferred revenue	20,744	20,744
Total liabilities	<u>252,970</u>	<u>252,970</u>
Fund balances:		
Unreserved:		
Unreserved	44,322	44,322
Total fund balances	<u>44,322</u>	<u>44,322</u>
<b>Total liabilities and fund balances</b>	<u>\$ 297,292</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	847,729
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(95,447)</u>
Net assets of governmental activities	<u>\$ 796,604</u>

The accompanying notes are an integral part of the financial statements.



**HILDALE CITY, UTAH**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	General Fund June 30, 2006	(Memorandum Only) General Fund June 30, 2005
<b>Revenues</b>		
Property taxes	\$ 137,543	\$ 72,454
Sales and use taxes	232,872	195,651
Franchise taxes	74,103	67,537
Licenses and permits	2,745	2,495
Intergovernmental revenue	111,709	168,564
Ambulance revenues	26,890	62,573
City service fees	23,959	23,965
Accounting service fees	182,695	194,595
Engineering service revenues	13,658	26,602
Rent and Industrial park leases	22,614	18,075
Other revenues/contributions	142,405	27,560
Interest income	5,742	4,090
Total revenues	<u>976,935</u>	<u>864,161</u>
<b>Expenditures</b>		
Current:		
General government	152,459	182,092
Accounting service	208,347	241,555
Public safety	382,346	276,166
Public works	13,658	23,089
Highways and streets	128,585	118,799
Parks and recreation	68,329	115,830
Total expenditures	<u>953,724</u>	<u>957,531</u>
Excess of revenues Over/(Under) expenditures	<u>23,211</u>	<u>(93,370)</u>
<b>Other financing sources (uses):</b>		
Loan proceeds	-	39,857
Total financing sources (uses)	<u>-</u>	<u>39,857</u>
Net change in fund balance	23,211	(53,513)
Fund balance, beginning of year	21,111	74,624
<b>Fund balance, end of year</b>	<u><u>\$ 44,322</u></u>	<u><u>\$ 21,111</u></u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2006**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 23,211
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

	23,771
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

	60,304
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Change in net assets of governmental activities	<u>\$ 107,286</u>
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The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 193,760	\$ 156,260	\$ 137,543	\$ (18,717)
Sales and use taxes	206,750	230,000	232,872	2,872
Franchise taxes	76,400	65,000	74,103	9,103
Licenses and permits	3,500	3,500	2,745	(755)
Intergovernmental revenue	128,500	170,900	111,709	(59,191)
Ambulance revenues	57,390	27,000	26,890	(110)
City service fees	25,000	25,000	23,959	(1,041)
Accounting service fees	211,300	211,300	182,695	(28,605)
Engineering service revenues	36,000	15,000	13,658	(1,342)
Rent and Industrial park leases	20,800	24,800	22,614	(2,186)
Other revenues/contributions	28,000	174,600	142,405	(32,195)
Interest income	3,000	3,000	5,742	2,742
Total revenues	990,400	1,106,360	976,935	(129,425)
<b>Expenditures</b>				
Current:				
General government	207,710	201,780	152,459	49,321
Accounting service	211,300	221,300	208,347	12,953
Public safety	375,930	450,910	382,346	68,564
Public works	36,000	15,000	13,658	1,342
Highways and streets	201,890	188,690	128,585	60,105
Parks and recreation	113,570	79,330	68,329	11,001
Total expenditures	1,146,400	1,157,010	953,724	203,286
Excess of Revenues Over/(Under) Expenditures	(156,000)	(50,650)	23,211	73,861
<b>Other financing sources (uses)</b>				
Loan proceeds	156,000	135,000	-	(135,000)
Total other financing sources and uses	156,000	135,000	-	(135,000)
Net change in fund balances	-	84,350	23,211	(61,139)
Fund balance, beginning of year	21,111	21,111	21,111	-
Fund balance, end of year	\$ 21,111	\$ 105,461	\$ 44,322	\$ (61,139)

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<u>Sewer</u>	<u>Affiliates</u>	<u>Total</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables, net of allowance	57,094	-	57,094
Due from other funds	135,000	-	135,000
Total current assets	<u>192,094</u>	<u>-</u>	<u>192,094</u>
Noncurrent assets:			
Restricted cash and cash equivalents	163,593	-	163,593
Investment in affiliates	-	18,583,781	18,583,781
Capital assets:			
Land	364,661	-	364,661
Buildings	1,044,081	-	1,044,081
Improvements other than buildings	6,462,092	-	6,462,092
Automobiles and trucks	75,745	-	75,745
Machinery and equipment	49,188	-	49,188
Office furniture and equipment	669	-	669
Less: Accumulated depreciation	<u>(2,521,077)</u>	<u>-</u>	<u>(2,521,077)</u>
Total noncurrent assets	<u>5,638,952</u>	<u>18,583,781</u>	<u>24,222,733</u>
Total assets	<u>5,831,046</u>	<u>18,583,781</u>	<u>24,414,827</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	14,944	-	14,944
Current portion of noncurrent liabilities	119,261	1,600,000	1,719,261
Total current liabilities	<u>134,205</u>	<u>1,600,000</u>	<u>1,734,205</u>
Noncurrent liabilities:			
Bonds payable, net of current portion	3,605,224	18,215,000	21,820,224
Total noncurrent liabilities	<u>3,605,224</u>	<u>18,215,000</u>	<u>21,820,224</u>
Total liabilities	<u>3,739,429</u>	<u>19,815,000</u>	<u>23,554,429</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,750,874	-	1,750,874
Invested in affiliates	-	(1,231,219)	(1,231,219)
Restricted for repair & replacement	60,500	-	60,500
Restricted for debt service	128,022	-	128,022
Unrestricted	152,221	-	152,221
Total net assets	<u>\$ 2,091,617</u>	<u>\$ (1,231,219)</u>	<u>\$ 860,398</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Sewer Fund</u>	<u>Affiliates</u>	<u>Total</u>
<b>Operating revenues</b>			
Charges for services	\$ 362,673	\$ -	\$ 362,673
Total Operating Revenues	<u>362,673</u>	<u>-</u>	<u>362,673</u>
<b>Operating expenses</b>			
Salaries	68,200	-	68,200
Professional & technical services	28,122	-	28,122
Supplies and maintenance	34,874	-	34,874
Office expenses	1,642	-	1,642
Insurance	2,670	-	2,670
Utilities	8,181	-	8,181
Depreciation	<u>180,501</u>	<u>-</u>	<u>180,501</u>
Total operating expenses	<u>324,190</u>	<u>-</u>	<u>324,190</u>
Operating income (loss)	<u>38,483</u>	<u>-</u>	<u>38,483</u>
<b>Non-operating revenues/(expenses)</b>			
Connection fees	7,490	-	7,490
Contributed capital	-	-	-
Interest income	16,475	-	16,475
Wastewater impact fees	2,178	-	2,178
Rural development grant	55,900	-	55,900
Interest expense and fiscal charges	(112,257)	-	(112,257)
Other expenses	(2,383)	-	(2,383)
Net income / (loss) from affiliate	<u>-</u>	<u>(1,012,353)</u>	<u>(1,012,353)</u>
Total non-operating income/(loss)	<u>(32,597)</u>	<u>(1,012,353)</u>	<u>(1,044,950)</u>
Change in net assets	5,886	(1,012,353)	(1,006,467)
Total net assets, beginning of year	<u>2,085,731</u>	<u>(218,866)</u>	<u>1,866,865</u>
Total net assets, end of year	<u>\$ 2,091,617</u>	<u>\$ (1,231,219)</u>	<u>\$ 860,398</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	Sewer Fund June 30, 2006	(Memorandum Only) Sewer Fund June 30, 2005
<b>Cash flows from operating activities</b>		
Cash received from customers, service fees	\$ 377,069	\$ 410,175
Cash paid to suppliers	(74,398)	(105,742)
Cash paid to employees	(68,200)	(38,901)
Cash paid to other funds	(127,892)	(7,108)
Cash flows from operating activities	<u>106,579</u>	<u>258,424</u>
<b>Cash flows from capital and related financing activities</b>		
Connection fees	7,490	4,643
Wastewater impact fees	2,178	8,112
Rural development grant	55,900	-
Other non-operating expenses	(2,383)	-
Acquisition of capital assets	(128,777)	(12,507)
Principal paid on long-term debt	(118,171)	(115,661)
Interest paid	(112,257)	(114,769)
Cash flows from capital and related financing activities	<u>(296,020)</u>	<u>(230,182)</u>
<b>Cash flows from investing activities</b>		
Interest on investments	<u>16,475</u>	<u>9,019</u>
<b>Net change in cash and cash equivalents</b>	(172,966)	37,261
<b>Cash and cash equivalents, beginning of year</b>	<u>336,559</u>	<u>299,298</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 163,593</u></u>	<u><u>\$ 336,559</u></u>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>		
Net operating income	\$ 38,483	\$ 19,781
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	180,501	199,932
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	14,396	42,450
(Increase)/Decrease in due from other funds	(127,892)	(7,108)
Increase/(Decrease) in accounts payable	1,091	3,369
Net cash flows from operating activities	<u><u>\$ 106,579</u></u>	<u><u>\$ 258,424</u></u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies**

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Hildale City, (the City) is a municipal corporation and political subdivision of the State of Utah, organized and existing as a third class city pursuant to Title 10, Utah Code Annotated 1953, as amended. The City is governed by a mayor and five council members elected for staggered four-year terms. The mayor presides over all meetings but casts not vote in the council except in case of a tie. Some department heads are full-time employees of the City and responsible for day-to-day operations within the policy framework of the governing body. They report to the Mayor and City Council.

**Reporting Entity**

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Generally Accepted Accounting Principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no separate component units combined to form the reporting entity. However, the City has an equity interest in Twin City Power Joint Management, Operations and Maintenance Agreement (Twin City Power) Twin City Water Joint Management, Operations and Maintenance Agreement (The Water Departments) and a Natural Gas Department. (See Note 9).

The accompanying financial statements include all activities of the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The uses of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Sewer Fund is used to account for the provision of sewer services to the residents of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Memorandum Totals**

The columns on the combined Statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Deposits and Investments**

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts, or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds." All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

**Inventories and prepaid items**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

Inventories in all fund types are immaterial and are not recorded.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years
Infrastructure	20 years

**Compensated Absences**

The City does not currently have a policy for vacation and sick leave benefits; thus, there are no such accruals or expenses.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Wages and Salaries**

Some of the City's employees are employed by Colorado City. The City reimburses Colorado City for wages, payroll taxes and benefits for these contracted employees.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**Risk Management**

The City maintains insurance for general liability, auto liability, employee dishonesty and worker's compensation through the Utah Local Government's Insurance Trust, American States Insurance and the Worker's Compensation Fund of Utah, respectively.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Reconciliation of Government-Wide and Fund Financial Statements**

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**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$230,447 difference are as follows:

Bonds/leases payable	\$ (95,447)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (95,447)</u>

**Capital related items:**

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 1,596,912
Accumulated depreciation	<u>(749,183)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 847,729</u>

**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 164,190
Depreciation expense	<u>(140,419)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 23,771</u>

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued**

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**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities, continued:**

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Principal paid on debt	\$ 60,304
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 60,304</u>

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**NOTE 3. Stewardship, Compliance, and Accountability**

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**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting, except that depreciation for all proprietary fund types was not budgeted. During the current fiscal year there were various amendments to the budget. Procedures for amending the budget were done in accordance with state law.

**Taxes**

Property taxes are collected by the Washington County Treasurer and remitted to the City in multiple installments. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Deposits and Investments**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

Hildale City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Hildale City funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's Central Treasury consist of the following at fiscal year end:

State Treasurer's Investment Pool	\$ 1,348,830
U.S. Bank	578,533
Wells Fargo Bank	160,933
Zions First National Bank	503,980
Less amounts transferred to Hildale and Colorado City Joint Utilities	(2,283,302)
	<u>\$ 308,974</u>

Cash in bank and equity in the City's Central Treasury by fund and by financial institution at fiscal year end is as follow:

	General Fund	Sewer Fund	Total
Equity in Central Treasury	\$ 145,381	\$ 163,593	\$ 308,974
Cash on hand	400	-	400
Total Cash and Investments	<u>\$ 145,781</u>	<u>\$ 163,593</u>	<u>\$ 309,374</u>

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Deposits and Investments, Continued**

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**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$818,818 of the Hildale City's central treasury's bank balance of \$1,181,818 was exposed to custodial credit risk because it was uninsured and collateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for Hildale City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Hildale City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Deposits and Investments, Continued**

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 1,348,830	\$ 1,348,830	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 1,348,830</u>	<u>\$ 1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Hildale City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Hildale City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 1,348,830	\$ -	\$ -	\$ -	\$ 1,348,830
Total Fair Value	<u>\$ 1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,348,830</u>



**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 5. Capital Assets**

The following table summarizes the changes to capital assets for governmental activities during the year.

<b>Governmental Activities:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets, not being depreciated:				
Land	\$ 83,421	\$ -	\$ -	\$ 83,421
Total capital assets, not being depreciated	83,421	-	-	83,421
Capital assets, being depreciated:				
Buildings	260,621	-	-	260,621
Improvements Other than Buildings	39,635	-	-	39,635
Machinery and Equipment	230,095	29,190	-	259,285
Office Furniture and Equipment	73,639	-	-	73,639
Automobiles and Trucks	692,747	135,000	-	827,747
Infrastructure	52,564	-	-	52,564
Total capital assets, being depreciated	1,349,301	164,190	-	1,513,491
Less accumulated depreciation for:				
Buildings	(96,046)	(6,516)	-	(102,562)
Improvements Other than Buildings	(4,547)	(3,544)	-	(8,091)
Machinery and Equipment	(112,771)	(26,110)	-	(138,881)
Office Furniture and Equipment	(54,218)	(7,072)	-	(61,290)
Automobiles and Trucks	(338,446)	(94,388)	-	(432,834)
Infrastructure	(2,736)	(2,789)	-	(5,525)
Total accumulated depreciation	(608,764)	(140,419)	-	(749,183)
Total capital assets, being depreciated, net	740,537	23,771	-	764,308
Governmental activities capital assets, net	\$ 823,958	\$ 23,771	\$ -	\$ 847,729

Depreciation expense was charged to the functions/programs of the City as follows:

<b>Governmental Activities:</b>	
General government	\$ 35,022
Highways and streets	4,380
Public safety	87,006
Public works	6,471
Parks & recreation	7,540
Total depreciation expense - governmental activities	<u>\$ 140,419</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 5. Capital Assets, Continued**

The following table summarizes the changes to capital assets for business-type activities during the year.

<b>Business Type Activities:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets not being depreciated:				
Land	\$ 364,661	\$ -	\$ -	\$ 364,661
Total capital assets, not being depreciated	<u>364,661</u>	<u>-</u>	<u>-</u>	<u>364,661</u>
Capital assets being depreciated:				
Buildings	1,044,081	-	-	1,044,081
Improvements other than buildings	6,345,679	116,413	-	6,462,092
Machinery and equipment	36,824	12,364	-	49,188
Office furniture and equipment	669	-	-	669
Automobiles and trucks	<u>75,745</u>	<u>-</u>	<u>-</u>	<u>75,745</u>
Total capital assets, being depreciated	<u>7,502,998</u>	<u>128,777</u>	<u>-</u>	<u>7,631,775</u>
Less accumulated depreciation for:				
Buildings	(650,227)	(26,145)	-	(676,372)
Improvements other than buildings	(1,609,267)	(140,780)	-	(1,750,047)
Machinery and equipment	(20,772)	(5,605)	-	(26,377)
Office furniture and equipment	(223)	(223)	-	(446)
Automobiles and trucks	<u>(60,086)</u>	<u>(7,749)</u>	<u>-</u>	<u>(67,835)</u>
Total accumulated depreciation	<u>(2,340,575)</u>	<u>(180,502)</u>	<u>-</u>	<u>(2,521,077)</u>
Total capital assets, being depreciated, net	<u>5,162,423</u>	<u>(51,725)</u>	<u>-</u>	<u>5,110,698</u>
Business-type activities capital assets, net	<u>\$ 5,527,084</u>	<u>\$ (51,725)</u>	<u>\$ -</u>	<u>\$ 5,475,359</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Long-Term Debt**

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The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
Sewer Revenue Bonds, Series 1979	\$ 288,700	\$ -	\$ 15,105	\$ 273,595	\$ 15,831
Sewer Revenue Bonds, Series 2000A	1,348,000	-	79,000	1,269,000	79,000
Sewer Revenue Bonds, Series 2000B	1,855,028	-	20,236	1,834,792	20,545
Sewer Revenue Bonds, Series 2000C	350,928	-	3,830	347,098	3,885
Electric Revenue Bonds, Series 1995	18,505,000	-	-	18,505,000	1,500,000
Electric Revenue Bonds, Series 1997	1,310,000	-	-	1,310,000	100,000
Total Bonds	<u>23,657,656</u>	<u>-</u>	<u>118,171</u>	<u>23,539,485</u>	<u>1,719,261</u>
Capital leases payable	<u>155,751</u>		<u>60,304</u>	<u>95,447</u>	<u>53,667</u>
Total Long-Term Debt	<u>\$23,813,407</u>	<u>\$ -</u>	<u>\$ 178,475</u>	<u>\$23,634,932</u>	<u>\$1,772,928</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Long-Term Debt, Continued**

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**Revenue Bonds and Other:**

Sewer Revenue Bonds, Series 1979, due in monthly principal and interest installments of \$2,435, bearing interest at 5.00%, maturing March 15, 2019, secured by the sewer building and distribution lines.	\$ 273,595
Parity Sewer Revenue Bond, Series 2000A, due in annual principal installments ranging from \$79,000 - \$80,000, non-interest bearing, maturing April 1, 2022.	1,269,000
Parity Sewer Revenue Bond, Series 2000B, due in annual principal installments ranging from \$18,000 - \$99,000, bearing interest at 4.5%, maturing November 25, 2042.	1,834,792
Parity Sewer Revenue Bond, Series 2000C, due in annual principal installments ranging from \$3,400 - \$18,800, bearing interest at 4.5%, maturing November 25, 2042.	347,098
Electric Revenue Bonds, Series 1995, due in annual principal installments ranging from \$210,000 to \$1,805,000 bearing interest semi-annually at 7.00 - 8.00% maturing beginning September 1, 2003 and ending September 1, 2025.	18,505,000 *
Electric Revenue Bonds, Series 1997, due in annual principal installments ranging from \$15,000 to \$190,000 bearing interest semiannually at 7.75%, maturing September 1, 2025.	<u>1,310,000 *</u>
Total Bonds Payable and Other Obligations	<u>23,539,485</u>
<b>Leases Payable:</b>	
Leases payable in monthly, semi-annual and annual installments through 2011, at interest from 2.65% to 7.4%.	<u>95,447</u>
Total Long-Term Debt	<u>23,634,932</u>
Less Current Portion:	
Business-Type Activities	(1,719,261)
Governmental Activities	<u>(53,667)</u>
Total Long-Term Debt, Net of Current Portion	<u>\$ 21,862,004</u>

\* These bonds are on the books of Twin City Power, See Note regarding Investment in Affiliates.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 6. Long-Term Debt, Continued**

Debt service requirements to maturity are as follows:

Year Ended June 30,	Sewer Revenue Bonds		Electric Revenue Bonds*	
	Principal	Interest	Principal	Interest
2007	\$ 119,261	\$ 111,167	\$ 1,600,000	\$ 1,443,691
2008	121,194	109,234	430,000	1,409,596
2009	123,219	107,209	470,000	1,373,677
2010	125,342	105,086	515,000	1,335,158
2011	127,567	102,861	540,000	1,293,839
2012-2016	675,145	476,994	3,555,000	5,710,952
2017-2021	682,213	406,618	5,180,000	4,026,247
2022-2026	342,657	348,383	7,525,000	1,581,529
2027-2031	328,794	282,246	-	-
2032-2036	411,583	199,457	-	-
2037-2041	515,219	95,821	-	-
2042-2043	152,291	4,861	-	-
Totals	<u>\$ 3,724,485</u>	<u>\$ 2,349,937</u>	<u>\$ 19,815,000</u>	<u>\$ 18,174,689</u>

\* See Note regarding Investment in Affiliates

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 7. Capital Leases Payable**

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**General Fund:**

The City has entered into nine lease agreements, which are considered capital leases in accordance with Financial Accounting Standard Board statement number 13. These leases are show in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 7.4 percent to 2.65 percent under capital leases, together with the present value of the net minimum lease payments:

<u>Year Ending June 30,</u>	<u>Total</u>
2007	\$ 56,260
2008	34,336
2009	4,271
2010	4,272
2011	95
2012	-
Total remaining lease payments	<u>99,234</u>
Less amount representing interest	<u>(3,787)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 95,447</u></u>

The summary of assets acquired through capital leases follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>
Vehicles and equipment	\$ 520,483	\$ 53,665	\$ 359,380

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 8.      Deferred Revenue**

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Deferred Revenues shown in the General Fund in the amount of \$20,744 includes \$2,891 in Industrial Park leases receivable not collected within sixty days after year end and \$17,853 in Sewer Service accounts receivable not collected within sixty days after year end. The sewer accounts receivable were previously recorded in the proprietary fund. The account was transferred to the general fund during the 1998 fiscal year per City ordinance. (See footnote 1, Governmental Fund Types.)

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**NOTE 9.      Investment in Affiliates**

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The City has the following investments which are accounted for using the equity method:

**Twin City Power**

The Twin City Power Joint Management, Operations and Maintenance Agreement (Twin City Power) was formed on April 29, 1994 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Electric Distribution Systems Management Operation and Maintenance Agreement."

Each City has acquired its own electric system which is independently owned and financed and reflected in the funds of Twin City Power. Each City's ownership percentage in Twin City Power is based upon their original investments in their City's system and subsequent specific contributions. Common operating revenues and expenditures are allocated on the basis of the proportion that the annual energy sales to each City's electric customers bears to the total annual energy sales.

The "Power Board" consists of seven Members, three appointed by the Mayor and Council of Hildale City and four Members appointed by the Mayor and Council of Colorado City. Each Member is entitled to one vote; however, budgeting and financing is done by each City's Council and merely ratified by the "Power Board."

Twin City Power's audited financial statements as of June 30, 2006 can be obtained at the following address:

Hildale City  
P.O. Box 840490  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 9. Investment in Affiliates, Continued**

**Twin City Power, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with Twin City Power and their allocation between the Cities for the year ended June 30, 2006:

	Distribution		Generation	
	Hildale City	Colorado City	Hildale City	Total
Total Assets	\$ 473,354	\$ (33,366)	\$ 20,065,746	\$ 20,505,734
Current Liabilities	\$ 71,123	\$ 133,142	\$ 4,008,611	\$ 4,212,876
Long-Term Liabilities	15,214	18,742	18,215,000	18,248,956
Total Liabilities	86,337	151,884	22,223,611	22,461,832
Net Assets/(Deficit)	387,017	(185,250)	(2,157,865)	(1,956,098)
Total Net Assets/(Deficit)	387,017	(185,250)	(2,157,865)	(1,956,098)
Total Liabilities and Net Assets	\$ 473,354	\$ (33,366)	\$ 20,065,746	\$ 20,505,734
Total Operating Revenues	\$ 1,358,379	\$ 1,908,118	\$ 4,333,556	\$ 7,600,053
Total Operating Expenses	1,971,540	2,797,298	3,370,361	8,139,199
Operating Income/(Loss)	(613,161)	(889,180)	963,195	(539,146)
Non-Operating Revenues/(Expenses)	25,869	47,781	(1,459,042)	(1,385,392)
Change in Net Assets	\$ (587,292)	\$ (841,399)	\$ (495,847)	\$ (1,924,538)

**Twin City Power Sale of Gas Contract**

On December 28, 1995, Twin City Power entered into an agreement with Conoco, Inc. (subsequently purchased by CIG Merchant Company, Inc.) to purchase natural gas at a fixed rate. This contract, having significant value in the 2005 winter gas market, was sold to El Paso Corporation effective April 1, 2005 for \$2,950,000. The gain resulting from the sale of the contract was reported in the non-operating portion of the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005.

Upon sale of the contract, the proceeds were transferred to an escrow account being held for future restructuring purposes by the Management of Twin City Power. In addition to the proceeds from the sale, a portion of the natural gas sales made by Twin City Power to CIMA Energy, LTD. were also transferred to the escrow account. The Series 1995 and 1997 Bondholders have consented to this process and the two parties are currently in deliberations concerning the future of the Hildale City Power Generation Fund.



**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9.      Investment in Affiliates, Continued**

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**Water Departments of Hildale/Colorado City**

The Twin City Water Joint Management, Operations and Maintenance Agreement (the Water Departments) was formed on February 22, 1996 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City has acquired its own water system which is independently owned and financed and reflected in the funds of the Water Departments. Each City's ownership percentage in the Water Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating revenues and expenditures are also allocated based on said percentages.

The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

The Water Departments' audited financial statements as of June 30, 2006, can be obtained at the following address:

Hildale City  
P.O. Box 840490  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 9. Investment in Affiliates, Continued**

**Water Departments, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Water Departments and their allocation between the Cities for the year ended June 30, 2006:

	Hildale City	Colorado City	Total
Total Assets	\$ 327,730	\$ 936,003	\$ 1,263,733
Current Liabilities	\$ 31,704	\$ 53,059	\$ 84,763
Long-Term Liabilities	52,474	97,454	149,928
Total Liabilities	84,178	150,513	234,691
Net Assets	243,552	785,490	1,029,042
Total Net Assets	243,552	785,490	1,029,042
Total Liabilities and Net Assets	\$ 327,730	\$ 936,003	\$ 1,263,733
Total Operating Revenues	\$ 209,300	\$ 400,349	\$ 609,649
Total Operating Expenses	189,051	379,690	568,741
Operating Income/(Loss)	20,249	20,659	40,908
Non-Operating Revenues/(Expenses)	2,156	4,860	7,016
Change in Net Assets	\$ 22,405	\$ 25,519	\$ 47,924

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9. Investment in Affiliates, Continued**

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**Gas Departments of Hildale/Colorado City**

The Gas Distribution Systems Management, Operations and Maintenance Agreement (the Gas Departments) have not yet been formed by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). However, the Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") intend to enter into an "Inter-Governmental Agreement."

Each City will acquire its own Gas system which will be independently owned and financed and reflected in the funds of the Gas Departments. Each City's ownership percentage in the Gas Departments will be calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating revenues and expenditures will also be allocated based on said percentages.

The Power Board of Trustees have been assigned the responsibility for the Gas Departments. The board consists of seven trustees, three appointed by the Mayor and Council of Hildale City and four appointed by the Mayor and Council of Colorado City. Each trustee will be entitled to one vote.

The Gas Departments' audited financial statements as of June 30, 2006, can be obtained at the following address:

Hildale City  
P.O. Box 840490  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 9. Investment in Affiliates, Continued**

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**Gas Departments, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Gas Departments and their allocation between the Cities for the year ended June 30, 2006:

	Hildale City	Colorado City	Total
Total Assets	\$ 349,501	\$ 383,313	\$ 732,814
Current Liabilities	\$ 44,632	\$ 78,190	\$ 122,822
Long-Term Liabilities	8,792	8,792	17,584
Total Liabilities	53,424	86,982	140,406
Net Assets	296,077	296,331	592,408
Total Net Assets	296,077	296,331	592,408
Total Liabilities and Net Assets	\$ 349,501	\$ 383,313	\$ 732,814
Total Operating Revenues	\$ 339,335	\$ 656,542	\$ 995,877
Total Operating Expenses	290,989	591,110	882,099
Operating Income/(Loss)	48,346	65,432	113,778
Non-Operating Revenues/(Expenses)	35	1,881	1,916
Change in net assets	\$ 48,381	\$ 67,313	\$ 115,694

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 10.      Power Sales Contracts - Concentration of Risk**

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Twin City Power entered into a firm power sales agreement with the City of St. George, wherein Twin City Power agreed to sell firm power and the associated energy to the City of St. George. The agreement was effective July 1, 1994 through June 30, 2024. However, this power sales agreement was terminated effective July 15, 2003. Actual power sales to St. George City under contract were terminated in December of 2002. Total sales to St. George City for fiscal year 2002 were \$2,847,439 and \$1,131,000 for fiscal year 2003. During fiscal year 2004, Twin City Power generated power for St. George City during July and August to meet peak demands. Wholesale power sales to St. George City for fiscal year 2004 amounted to \$ 209,447. Twin City Power did not sale power to St. George City in fiscal year 2005 or 2006.

Hildale City and Colorado City entered into a power sales contract on December 15, 1995, wherein Colorado City agrees to purchase energy generated by Hildale City. The charge to Colorado City for capacity and energy is Colorado City's pro rata share of the operation and maintenance expenses and capital costs during the period, after the application of all other revenues. During the current fiscal year, Colorado City was charged \$2,488,009 (59.18%) and the Hildale City Distribution fund was charged \$1,715,998 (40.82%). Amounts due to the Hildale City generation fund by the Colorado City and Hildale City distribution funds are \$1,786,178 and \$625,189 respectively.

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**NOTE 11.      Natural Gas Price Issues**

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Natural gas costs are have risen substantially in recent years. Expectations of the generation plant assumed natural gas costs at under \$2.00 per decatherm. Natural gas pricing has been as high as \$7.00 per decatherm and higher throughout some of the winter months for fiscal year 2006.

As a result of high gas costs, the City has not been able to continue generating power under the St. George City contract. As discussed in Note 10, Twin City Power's contract with St. George City was irrevocably cancelled.

Rolls Royce terminated its long-term maintenance agreement with the generation plant in the prior year. They terminated the agreement due to generation shutdowns and unacceptable natural gas prices. Currently, any maintenance and parts for the generation plant's turbine generators are the sole responsibility and cost of Twin City Power.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 12. Bond Covenants – Disclosures - Defaults**

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The City's Power fund **net revenues for the current fiscal year failed to meet the requirement** set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond resolutions/covenants.

The net revenue requirement for the current fiscal year is \$3,804,614 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$1,266,533 which yields a **shortfall of \$2,538,081.**

As discussed in Note 10, as of July 15, 2003, Twin City Power's **firm power sales agreement with St. George City was terminated.** The cancellation of this contract is an event of default under the bond resolutions.

During fiscal year 2006, Twin City Power **failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997.** Total principal past due as of June 30, 2006 was \$1,155,000. **Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through** the issuance date of the financial statements. Non-payment constitutes default under both bond resolutions.

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**NOTE 13. Individual Fund Disclosures**

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**Segment Information:**

The Sewer Fund accounts for the operation and maintenance of the sewer collection and treatment system. The segment information for the Sewer Fund is available in the basic financial statements. The equity joint venture interest in the gas, water and electric utilities are available in footnote 9.

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**NOTE 14. Operating Leases**

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The City entered into two operating leases during the year for heavy equipment. Total costs for such leases were \$44,026 for the year ended June 30, 2006. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Total
2007	\$ 35,492
2008	13,819
2009	-
Total remaining lease payments	<u>\$ 49,311</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 15.      Related Party Transaction**

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The City paid \$24,750 to a related party, F&H Distributing, during the year ended June 30, 2006 to lease a semi-truck. The payment is included in highways and streets expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances on page 13. The City earned \$29,543 by subleasing the truck. The revenue is included in other revenues/contributions on the same statement. F&H Distributing is owned by Harold Peine a member of the City Council.

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**NOTE 16.      Internal Balances /Interfund Transactions**

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During fiscal year 2006, the City's sewer fund loaned the City's general fund \$135,000 to buy a new ambulance. Resolution 06-01-01 specifies that the loan will be repaid over 48 months with interest being charged to the general fund based upon a variable interest rate tied to the Public Treasurer's Investment Fund (PTIF) rates. Payments are scheduled to begin July 2006.

**SUPPLEMENTARY SCHEDULES**



**HILDALE CITY, UTAH**  
**Supplementary Information on Bond Requirements**  
**June 30, 2006**

The Series 1995 and 1997 Electric System Bond Resolutions set forth certain covenants and restrictions. The City is not in compliance with all covenants and restrictions for the Electric System Bond Resolution requirements see Note 12. Additional disclosures required by the Resolutions are:

	<u>Total Billings 2005-2006</u>	<u>Average Per Month</u>	<u>Average Per Customer</u>	<u>Total Customers</u>
CCA Residential	\$ 1,359,443.58	\$113,286.97	\$ 2,296.36	592
CCA Commercial	336,586.31	28,048.86	3,698.75	91
CCA Public	<u>382,205.49</u>	<u>31,850.46</u>	<u>31,850.46</u>	<u>12</u>
<b>Total CCA Billings</b>	<b>\$ 2,078,235.38</b>	<b>\$173,186.29</b>	<b>\$ 2,990.27</b>	<b>695</b>
HCU Residential	\$ 790,190.26	\$ 65,849.19	\$ 3,039.19	260
HCU Commercial	583,837.49	48,653.12	8,713.99	67
HCU Public	<u>119,959.03</u>	<u>9,996.59</u>	<u>14,994.88</u>	<u>8</u>
<b>Total HCU Billings</b>	<b>\$ 1,493,986.78</b>	<b>\$124,498.90</b>	<b>\$ 4,459.66</b>	<b>335</b>

Insurance coverage in effect at June 30, 2006:

<u>Type</u>	<u>Policy Number</u>	<u>Effective</u>	<u>Expires</u>	<u>Limits</u>
<b>Coverage with Utah Local Governments Trust:</b>				
General Liability	11720-GL2005	12/15/2005	Continuous	\$ 5,000,000
Property	11720-GL2005	12/15/2005	Continuous	\$ 5,000,000
Automobile physical damage	11720-GL2005	12/15/2005	Continuous	\$ 5,000,000
Uninsured motorist	11720-GL2005	12/15/2005	Continuous	\$ 65,000
<b>Coverage with Liberty Surplus Insurance Corporation:</b>				
Power Plant Property	5D117585005	4/1/2006	4/1/2007	\$ 10,874,200
Business Interruption	5D117585005	4/1/2006	4/1/2007	\$ 4,669,048

**HILDALE CITY, UTAH**  
**Supplementary Information Impact Fees**  
**For the Year Ended June 30, 2006**

During the 2006 legislative session, the Utah Legislature modified *UC 10-5-29* and *UC 17A-1-4* requiring governments who collect impact fees to provide additional reporting in their financial statements. The following schedule presents the required information:

Fiscal Year	Revenues	Interest	Expenditures	Explanation of Expenditure	Accumulated Balance
2002	\$22,290.72	\$497.80	\$22,788.52	2002 Sewer Plant Project	\$0.00
2003	\$146,578.48	\$2,266.69	\$148,845.17	2002 Sewer Plant Project	\$0.00
2004	\$44,391.48	\$756.08	\$45,147.56	2002 Sewer Plant Project	\$0.00
2005	\$8,111.83	\$265.13	\$8,376.96	2002 Sewer Plant Project	\$0.00
2006	\$2,178.16	\$110.91	\$2,289.07	2002 Sewer Plant Project	\$0.00

**FEDERAL AND STATE REPORTS**



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and  
City Council  
Hildale City, Utah

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the basic financial statements of the Hildale City, Utah as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hildale City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Hildale City in the accompanying management letter dated August 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hildale City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain instances of noncompliance, which we have reported to management of Hildale City in the accompanying management letter dated August 25, 2006.

This report is intended solely for the information and use of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAS & ADVISORS

## Independent Auditors' Report on State Legal Compliance

Honorable Mayor and  
City Council  
Hildale City, Utah

### MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the basic financial statements of Hildale City, Utah, for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. As part of our audit, we have audited Hildale City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subjected to test work as part of the audit of Hildale City's financial statements.)

EMS Grants (Department of Health)  
Wildland Fire Grant (Department of Natural Resources)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Liquor Law Enforcement  
B & C Road Funds  
Justice Courts  
Other General Compliance Issues  
Uniform Building Code Standards  
Impact Fees and Other Development Fees  
Asset Forfeitures

The management of Hildale City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying findings and recommendations letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Hildale City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## HILDALE CITY Findings and Recommendations For the Year Ended June 30, 2006

### MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Honorable Mayor and  
City Council  
Hildale City, Utah

During our audit of the funds of Hildale City for fiscal year 2005-2006, we noted improvements in the City's accounting and budgeting system and wish to commend the City for making changes and improvements. We also noted areas needing corrective action in order for the City to be in compliance with laws and regulations and we found circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration:

### Compliance Findings and Recommendations:

#### 1. Fund Deficits

##### Finding

Utah code section 10-6-117 states "The governing body of any city may not make any appropriation in the final budget of any fund in excess of the estimated expendable revenue for the budget period of the fund." It further states that "There shall be included as an item of appropriation in each fund for any budget period any existing deficit as of the close of the last completed fiscal period, not previously included in the budget of the current period, to the extent of at least 5% of the total revenue of the fund in its last completed fiscal period."

We noted during our audit that no appropriation was made on the FY 2006 adopted budget to relieve the fund deficit in the Hildale City Generation Fund. We also noted that no appropriation was made on the FY 2007 budget for the deficit balance in the aforementioned Fund.

##### Recommendation

We recommend that the Twin City Power Board continue to make it their highest priority to relieve the deficit fund balance in the aforementioned fund by a variety of means including, but not limited to, refinancing, raising electricity rates, renegotiating contracts and using cost reduction measures. We also recommend that measures be taken in the budgeting process to appropriate for deficits created from prior year's operations in order to comply with state law.



2. Fidelity Bond

Finding

While performing our test work, we discovered that the State required Fidelity Bond amount is underfunded. The bond amount should provide at least \$461,756 in coverage, but the current bond amount is \$300,000.

Recommendation

Increase the Bond coverage to cover the required amount.

3. Impact Fee Accounting

Finding

*Utah Code Section 11-36-301* requires the following:

"Each local political subdivision collecting impact fees shall:

- a. establish separate interest bearing ledger accounts for each type of public facility for which an impact fee is collected;
- b. deposit impact fee receipts in the appropriate ledger account;
- c. retain the interest earned on each fund or account in the fund or account; and
- d. at the end of each fiscal year, prepare a report on each fund or account showing:
  - 1) the source and amount of all monies collected, earned, and received by the fund or account; and
  - 2) each expenditure from the fund or account.

This report is a public document and should be available for public inspection during regular office hours. (*Utah Code 11-36-301*)"

We concluded during our test work that sewer impact fees are being collected properly and spent in accordance with State law; however, as is stated in item d. above, a report was not prepared by management at year end to show an accounting for the impact fees.

Recommendation

We recommend that management prepare an accounting as specified above at the end of each fiscal year for sewer impact fees to comply with State law.

**General Findings and Recommendations:**

1. Bond Covenants

Finding

The City's Power fund net revenues for the current fiscal year failed to meet the requirement set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond

resolutions/covenants. The net revenue requirement for the current fiscal year is \$3,804,614 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$1,266,533 which yields a shortfall of \$2,538,081. There were also shortfalls in the prior years of \$495,219, \$634,786, \$77,635, \$278,464, \$235,356, \$329,671, and \$1,141,032.

A contributing factor to the lack of revenues from power generation was the termination of the power contract with St. George City. Termination of this contract was also a default under the bond resolutions.

During fiscal year 2006, Twin City Power failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997 shown in Note 6. Total principal past due as of June 30, 2006 was \$1,155,000. Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through the issuance date of the financial statements. Non-payment constitutes default under both bond resolutions.

#### Recommendation

We understand there is a supplemental resolution which modifies the electric revenue bond documents and allows the City to draw on debt reserves and run below the 125% debt service coverage ratio without bondholders taking adverse action against the City; however, we recommend that the City continue to take steps such as refinancing or rate restructuring or cost reductions necessary to enable the City to meet the revenue requirements established by the bond resolutions.

## 2. Bond Reserve Accounts – Twin City Power

### Finding

The following is a list of required reserve accounts as specified in the bond covenants showing the under funded amounts as of June 30, 2006.

Account	Under funded Amount
1995 - Electric Revenue Bond - Debt Service Reserve	\$ 317,137
1995 - Electric Revenue Bond - Renewal and Replacement	\$ 494,177

We noted that qualified expenditures were made out of the 1995 Electric Revenue Bond Renewal and Replacement Fund in prior years, which contributed to its under funded position.

### Recommendation

We understand that management is aware of the under funded amounts and has taken steps toward eliminating these under funded amounts. We recommend that the City continue its efforts and transfer sufficient monies into the specified reserve accounts within the time constraints outlined in the bond covenants.

#### 3. Bond Reserve Accounts – Hildale City Proprietary Fund (Sewer Fund)

The following is a list of required reserve accounts as specified in the Series 2000 bond covenants showing the under funded amounts at of June 30, 2006:

Account	Under funded Amount
Series 2000 A, B and C Bond Fund	\$ 7,432
Series 2000 B, C Reserve Fund	\$ 17,497

### Recommendation

We recommend that the City re-examine its procedures for properly funding required bond reserve accounts to ensure that each reserve account is properly funded.

#### 4. Overpayment of Sales Tax

##### Finding

While performing our test work for fiscal year 2004, we discovered that TCP was overpaying sales tax to the State of Utah for commercial power sales. We noted that some effort had been exerted to correct the problem during fiscal year 2005. However, upon examination of the sales tax payable account for fiscal year 2006, we determined along with management that TCP had still overpaid its sales tax by \$8,127 in fund 53.

##### Recommendation

We commend City's management for their efforts to resolve this issue. We recommend that TCP re-examine its sales tax remittance procedures and correct the errors. We also recommend that TCP contact the Utah State Tax Commission and determine the appropriate procedure for obtaining a refund of over paid sales taxes.

5. Excise Tax Refunds

Finding

Twin City Power has not filed for fuel excise tax refunds with the IRS and the State of Utah during fiscal years 2005 and 2006. The refund receivable as of June 30, 2006 was \$127,530.

Recommendation

We recommend that the City file for the fuel excise tax refunds due as soon as possible and that it implement procedures for timely filing for the refunds in the future.

6. Segregation of Duties – Justice Court

Finding

During our review of internal controls, we noted that the court clerk calculates and collects justice court fines, records the receipt, has custody of the funds, and prepares the deposit.

Recommendation

We recommend that the justice court internal controls be re-evaluated. If possible, we recommend that the justice court receipting be done by someone who does not record the justice court payments in the system.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

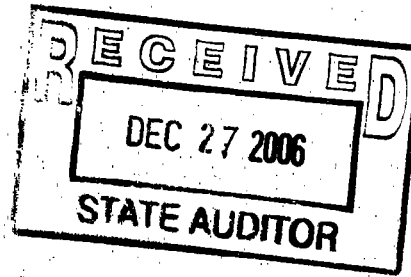
This letter is intended solely for the use of the Mayor, City Council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006



**WATER DEPARTMENTS OF  
HILDALE/COLORADO CITY  
(TWIN CITY WATER JOINT MANAGEMENT, OPERATIONS & MAINTENANCE AGREEMENT)  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**



**HINTONBURDICK**  
**HINTON BURDICK HALL & SPILKER PLLC**  
**CPAs & ADVISORS**

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**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
CPAs & ADVISORS

**Independent Auditors' Report on the  
Basic Financial Statements**

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

We have audited the accompanying financial statements for the Water Departments of Hildale, Utah and Colorado City, Arizona as of June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Departments as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006 on our consideration of the Water Departments internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*HintonBurdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006

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## **WATER DEPARTMENTS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Water Departments, we offer readers of the Departments' financial statements this narrative overview and analysis of the financial activities of the Departments for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$1,029,042 at the close of the fiscal year.
- Total net assets increased by \$47,924.
- Total operating revenues were \$609,649.
- Total operating expenses were \$568,741.
- At the end of the current fiscal year, unreserved net assets for the Departments were \$433,522.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of the Water Departments' (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of the Water Departments' assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track the Departments' financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in the Departments' net assets during the year. The Departments use the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

**WATER DEPARTMENTS**  
**Statement of Net Assets (Condensed)**

	<u>6/30/2005</u>	<u>6/30/2006</u>
Current Assets	\$ 398,524	\$ 507,586
Noncurrent Assets	<u>810,638</u>	<u>756,147</u>
Total Assets	<u>1,209,162</u>	<u>1,263,733</u>
Current Liabilities	67,417	84,763
Long-Term Liabilities	<u>160,627</u>	<u>149,928</u>
Total Liabilities	<u>228,044</u>	<u>234,691</u>
Total Net Assets	<u>\$ 981,118</u>	<u>\$ 1,029,042</u>

**Statement of Revenues, Expenses and Changes in Net Assets (Condensed)**

	<u>6/30/2005</u>	<u>6/30/2006</u>
Total Operating Revenues	\$ 563,763	\$ 609,649
Total Operating Expenses	<u>525,736</u>	<u>568,741</u>
Operating Income/(Loss)	38,027	40,908
Non-Operating Revenues/(Expenses)	<u>13,745</u>	<u>7,016</u>
Change in Net Assets	<u>\$ 51,772</u>	<u>\$ 47,924</u>

Operating expenses this year were \$568,741 as shown above. Operating revenues were \$609,649. Operating income as percentage of operating revenues was 6.71%.

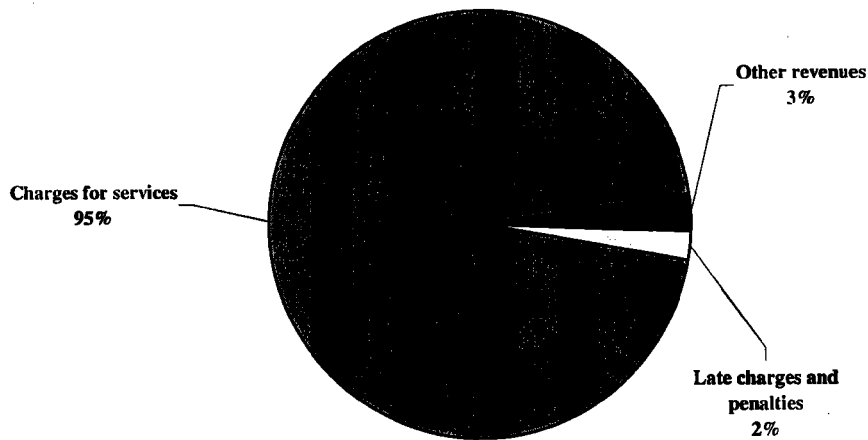
The Water Departments' provide water services to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During fiscal year 2006, Net Assets increased by \$47,924.

A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

**WATER DEPARTMENTS' REVENUE BY SOURCE (Combined)**  
**Year ended June 30, 2005 and 2006**

	<u>6/30/2005</u>	<u>6/30/2006</u>
REVENUES:		
Charges for services	\$ 541,552	\$ 579,992
Other revenues	6,056	16,863
Late charges and penalties	<u>16,155</u>	<u>12,794</u>
 Total Revenues	 <u>\$ 563,763</u>	 <u>\$ 609,649</u>

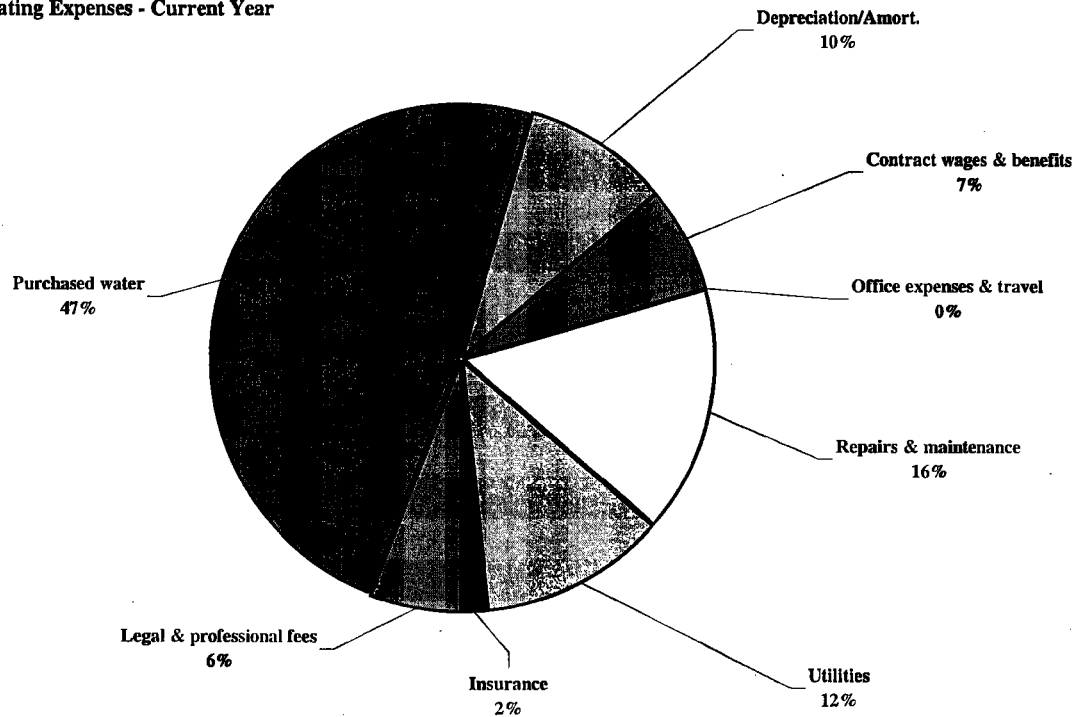
**Revenues by Source - Current Year**



**WATER DEPARTMENTS' OPERATING EXPENSES (Combined)**  
**Year ended June 30, 2005 and 2006**

	<u>6/30/2005</u>	<u>6/30/2006</u>
OPERATING EXPENSES:		
Contract wages & benefits	\$ 39,337	\$ 37,155
Office expenses & travel	4,773	1,490
Repairs & maintenance	61,423	89,540
Utilities	58,368	67,890
Insurance	8,756	9,712
Legal & professional fees	35,309	32,936
Purchased water	251,612	275,526
Depreciation/Amort.	66,158	54,492
	<hr/>	<hr/>
Total Operating Expenses	<u>\$ 525,736</u>	<u>\$ 568,741</u>

Operating Expenses - Current Year



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the Departments are those assets that are used in performance of Departments' functions including vehicles, equipment, buildings, wells and water system. At the end of fiscal year 2006, net capital assets of the Departments' activities totaled \$756,147.

### **Debt**

At year-end, the Departments' had \$160,627 in long-term debt. During the current fiscal year, the Departments' total debt decreased by \$10,178. (See the notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Departments budget for fiscal year 2006/2007, the Departments' Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2005/2006. There are no large capital projects anticipated for FY 2006/2007.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments' finances for all those with an interest in the government's finances and to show the Departments' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Hildale City Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**WATER DEPARTMENTS**  
**Statement of Net Assets**  
**Enterprise Funds**  
**June 30, 2006**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2006	June 30, 2005
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 161,184	\$ 233,396	\$ 394,580	\$ 299,292
Receivables	35,042	77,964	113,006	99,232
<b>Total Current Assets</b>	<u>196,226</u>	<u>311,360</u>	<u>507,586</u>	<u>398,524</u>
<b>Non current Assets:</b>				
Property and equipment	236,254	1,003,236	1,239,490	1,239,489
Accumulated depreciation	(104,750)	(378,593)	(483,343)	(428,851)
<b>Total Noncurrent Assets</b>	<u>131,504</u>	<u>624,643</u>	<u>756,147</u>	<u>810,638</u>
<b>Total Assets</b>	<u>\$ 327,730</u>	<u>\$ 936,003</u>	<u>\$ 1,263,733</u>	<u>\$ 1,209,162</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 26,450	\$ 43,179	\$ 69,629	\$ 56,594
Customer deposits	1,509	2,926	4,435	645
Notes payable - current portion	3,745	6,954	10,699	10,178
<b>Total Current Liabilities</b>	<u>31,704</u>	<u>53,059</u>	<u>84,763</u>	<u>67,417</u>
<b>Non current Liabilities:</b>				
Notes payable-net of current portion	52,474	97,454	149,928	160,627
<b>Total Non current Liabilities</b>	<u>52,474</u>	<u>97,454</u>	<u>149,928</u>	<u>160,627</u>
<b>Total Liabilities</b>	<u>84,178</u>	<u>150,513</u>	<u>234,691</u>	<u>228,044</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	75,285	520,235	595,520	639,833
Unreserved	168,267	265,255	433,522	341,285
<b>Total net assets</b>	<u>\$ 243,552</u>	<u>\$ 785,490</u>	<u>\$ 1,029,042</u>	<u>\$ 981,118</u>

The accompanying notes are an integral part of the financial statements.

**WATER DEPARTMENTS**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Funds**  
**For the Year Ended June 30, 2006**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2006	June 30, 2005
<b>Operating Revenues</b>				
Charges for services	\$ 200,922	\$ 379,070	\$ 579,992	\$ 541,552
Other revenues	4,303	12,560	16,863	6,056
Late charges and penalties	4,075	8,719	12,794	16,155
Total Operating Revenues	209,300	400,349	609,649	563,763
<b>Operating Expenses</b>				
Contract wages & benefits	12,633	24,522	37,155	39,337
Office expenses & travel	545	945	1,490	4,773
Repairs & maintenance	30,734	58,806	89,540	61,423
Utilities	27,480	40,410	67,890	58,368
Insurance	1,731	7,981	9,712	8,756
Legal & professional fees	11,184	21,752	32,936	35,309
Purchased water	93,679	181,847	275,526	251,612
Depreciation/amortization	11,065	43,427	54,492	66,158
Total Operating Expenses	189,051	379,690	568,741	525,736
<b>Operating Income</b>	20,249	20,659	40,908	38,027
<b>Non-Operating Income/(Expenses)</b>				
Interest income	5,242	10,592	15,834	5,104
Contributed capital	-	-	-	17,239
Interest expense and fiscal charges	(3,086)	(5,732)	(8,818)	(8,598)
Total Non-Operating Income (Loss)	2,156	4,860	7,016	13,745
<b>Change in net assets</b>	22,405	25,519	47,924	51,772
<b>Total net assets, beginning of year</b>	221,147	759,971	981,118	929,346
<b>Total net assets, end of year</b>	<u>\$ 243,552</u>	<u>\$ 785,490</u>	<u>\$ 1,029,042</u>	<u>\$ 981,118</u>

The accompanying notes are an integral part of the financial statements.

**WATER DEPARTMENTS**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2006**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2006	June 30, 2005
<b>Cash flows from operating activities</b>				
Cash received from customers, service fees	\$ 198,833	\$ 367,384	\$ 566,217	\$ 566,836
Cash received from customers, other	9,347	24,100	33,447	22,856
Cash paid to suppliers	(170,228)	(330,986)	(501,214)	(478,471)
<b>Cash flows from operating activities</b>	<b>37,952</b>	<b>60,498</b>	<b>98,450</b>	<b>111,221</b>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	-	-	-	(17,239)
Contributed capital	-	-	-	17,239
Principal paid on capital lease	-	-	-	(6,943)
Principal paid on long-term debt	(3,563)	(6,615)	(10,178)	(10,398)
Interest paid	(3,086)	(5,732)	(8,818)	(8,596)
<b>Cash flows from capital and related financing activities</b>	<b>(6,649)</b>	<b>(12,347)</b>	<b>(18,996)</b>	<b>(25,937)</b>
<b>Cash flows from investing activities</b>				
Interest on investments	5,242	10,592	15,834	5,104
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>36,545</b>	<b>58,743</b>	<b>95,288</b>	<b>90,388</b>
<b>Balances - Beginning of the year</b>	<b>124,639</b>	<b>174,653</b>	<b>299,292</b>	<b>208,904</b>
<b>Balances - End of the year</b>	<b>\$ 161,184</b>	<b>\$ 233,396</b>	<b>\$ 394,580</b>	<b>\$ 299,292</b>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>				
Net operating income	\$ 20,249	\$ 20,659	\$ 40,908	\$ 38,027
Adjustments to reconcile net operating income to net cash provided by operating activities:				66,158
Depreciation/amortization	11,065	43,427	54,492	
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(2,089)	(11,686)	(13,775)	25,284
Increase/(Decrease) in accounts payable	7,758	5,277	13,035	(18,893)
Increase/(Decrease) in customer deposits	969	2,821	3,790	645
<b>Cash flows from operating activities</b>	<b>\$ 37,952</b>	<b>\$ 60,498</b>	<b>\$ 98,450</b>	<b>\$ 111,221</b>

The accompanying notes are an integral part of the financial statements.



**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 1.      Summary of Significant Accounting Policies**

---

**General**

The Twin City Water Joint Management, Operations and Maintenance Agreement or the Water Departments of Hildale/Colorado City (the Water Departments) was formed on February 22, 1997, by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City has acquired its own water system which is independently owned and financed and reflected in the funds of the Water Departments. Each City's ownership percentage in The Water Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating expenditures are allocated based on actual revenues billed to each City's customers.

The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

**Reporting Entity**

In evaluating how to define the Water Departments, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Water Departments are able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Water Departments.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

---

**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Water Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Departments' apply all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Departments have elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Water Departments' Board of Trustees adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Water Departments.

**Accounts Receivable**

Accounts receivable consists solely of amounts due for water services provided. Management does not consider an allowance for uncollectible accounts receivable necessary or material and; therefore, no allowance has been recorded

**Inventories**

Inventories and supplies are considered immaterial and are not recorded.

**Wages and Salaries**

All employees are employed by Colorado City. The Water Departments reimburse Colorado City for wages, payroll taxes and benefits.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

---

**Net Assets**

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the Departments' legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Distribution System	25 years
Automobiles and trucks	5 years
Office Furniture & Equipment	5-7 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

---

**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Water Departments' follow the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of The Water Departments' funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Deposits and Investments, Continued**

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The Water Departments participate in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

State Treasurer's Investment Pool	1,348,830
U.S. Bank	578,533
Wells Fargo Bank	160,933
Zions First National Bank	503,980
Less amounts transferred to Hildale and Colorado City Joint Utilities	<u>(2,197,696)</u>
	<u>394,580</u>

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Equity in Central Treasury	\$ 161,184	\$ 233,396	\$ 394,580

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$881,818 of the Hildale City's central treasury's bank balance of \$1,181,818 was exposed to custodial credit risk because it was uninsured and collateralized.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 2.      Deposits and Investments, Continued**

---

**Investments**

The Money Management Act defines the types of securities authorized as an appropriate investment for the The Water Departments' and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the The Water Departments' to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 2. Deposits and Investments, Continued**

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 1,348,830	\$ 1,348,830	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 1,348,830</u>	<u>\$ 1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Water Departments' policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Water Departments' policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 1,348,830	\$ -	\$ -	\$ -	\$ 1,348,830
Total Fair Value	<u>\$ 1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,348,830</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assets during the year ended June 30, 2006:

	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
<b>Hildale City:</b>				
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	-	-	-	-
Capital assets being depreciated				
Office equipment	1,144	-	-	1,144
Automobiles and trucks	12,897	-	-	12,897
Water distribution system	184,228	-	-	184,228
System equipment	37,985	-	-	37,985
Total capital assets, being depreciated	236,254	-	-	236,254
Less accumulated depreciation for:				
Office equipment	(837)	(51)	-	(888)
Automobiles and trucks	(12,069)	(827)	-	(12,896)
Water distribution system	(46,442)	(7,369)	-	(53,811)
System equipment	(34,337)	(2,818)	-	(37,155)
Total accumulated depreciation	(93,685)	(11,065)	-	(104,750)
Total capital assets, being depreciated, net	142,569	(11,065)	-	131,504
Hildale City activities capital assets, net	\$ 142,569	\$ (11,065)	\$ -	\$ 131,504



**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets, Continued**

The following table summarizes the changes to capital assets during the year ended June 30, 2006:

	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
<b>Colorado City:</b>				
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	-	-	-	-
Capital assets being depreciated				
Office equipment	2,634	-	-	2,634
Automobiles and trucks	26,184	-	-	26,184
Water distribution system	899,142	-	-	899,142
System Equipment	75,277	-	-	75,277
Total capital assets, being depreciated	1,003,237	-	-	1,003,237
Less accumulated depreciation for:				
Office equipment	(1,713)	(253)	-	(1,966)
Automobiles and trucks	(24,505)	(1,679)	-	(26,184)
Water distribution system	(240,174)	(35,966)	-	(276,140)
System equipment	(68,776)	(5,528)	-	(74,304)
Total accumulated depreciation	(335,168)	(43,426)	-	(378,594)
Total capital assets, being depreciated, net	668,069	(43,426)	-	624,643
Colorado City activities capital assets, net	<u>\$ 668,069</u>	<u>\$ (43,426)</u>	<u>\$ -</u>	<u>\$ 624,643</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Long-Term Debt**

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The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
Notes payable	<u>\$ 170,805</u>	<u>\$ -</u>	<u>\$ 10,178</u>	<u>\$ 160,627</u>	<u>\$ 10,699</u>
Total Long-term debt	<u>\$ 170,805</u>	<u>\$ -</u>	<u>\$ 10,178</u>	<u>\$ 160,627</u>	<u>\$ 10,699</u>

Long term debt consists of the following at June 30, 2006:

<u>Notes Payable</u>	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Note Payable to Twin City Water Authority bearing interest at 5.00 percent, due in monthly principal and interest installments of \$1,583 maturing June 26, 2018.	<u>\$ 56,219</u>	<u>\$ 104,408</u>	<u>\$ 160,627</u>
Total Long Term Debt	56,219	104,408	160,627
Less Current Portion:	<u>(3,745)</u>	<u>(6,954)</u>	<u>(10,699)</u>
Net Long Term Debt	<u>\$ 52,474</u>	<u>\$ 97,454</u>	<u>\$ 149,928</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Long-Term Debt, Continued**

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Maturities of Notes Payable are as follows:

Year Ended June 30,	Hildale City		Colorado City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 3,745	\$ 2,904	\$ 6,954	\$ 5,393	\$ 10,699	\$ 8,297
2008	3,936	2,712	7,310	5,037	11,246	7,749
2009	4,138	2,511	7,684	4,663	11,822	7,174
2010	4,349	2,299	8,077	4,270	12,426	6,569
2011	4,572	2,077	8,490	3,857	13,062	5,934
2012-2016	26,616	6,627	49,429	12,308	76,045	18,935
2017-2018	8,863	4,210	16,464	7,818	25,327	12,028
Total	<u>\$ 56,219</u>	<u>\$ 23,340</u>	<u>\$ 104,408</u>	<u>\$ 43,346</u>	<u>\$ 160,627</u>	<u>\$ 66,686</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 5.      Commitments**

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The Water Departments have entered into an agreement with Twin City Water Works for the maintenance of the water distribution system. Twin City Water Works provides for all of the repairs and routine maintenance of the system and bills the Water Departments monthly based on hourly rates for labor and equipment use as provided in the agreement. The agreement is for a term of two years beginning April 1, 1996, with an automatic one year extension unless canceled in writing by either party.

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**NOTE 6.      Board of Trustees, Mayors and Councils**

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The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.

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**NOTE 7.      Risk Management**

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**Risk Management**

The Departments are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Departments maintain insurance for the water distribution systems through Hildale City and Colorado City's insurance policies which are held through the Utah Local Government Trust and Arizona Municipal Risk Retention Pools. All employees are employed by Colorado City and covered by Colorado City's insurance policy.

**FEDERAL AND STATE REPORTS**

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# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

We have audited the basic financial statements of the Water Departments of Hildale/Colorado City (the Water Departments) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water Departments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Water Departments in a separate letter dated August 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Departments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Water Departments in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC

August 25, 2006





# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

## Findings and Recommendations

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

During our audit of the funds of the Water Departments of Hildale/Colorado City (the Water Departments) for fiscal year ended June 30, 2006, we noted that management has made improvements to the accounting and budgeting system and we wish to commend management and the board on their achievements. However, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the Water Departments' accounting system and control over its assets.

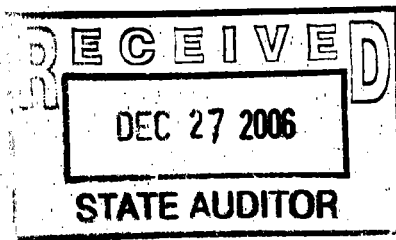
Since the Water Departments' accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which will be made available to each participating board.

It has been a pleasure to be of service to the Water Departments this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*HintonBurdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006



**GAS DEPARTMENTS OF  
HILDALE/COLORADO CITY**

**(GAS DISTRIBUTION JOINT MANAGEMENT, OPERATIONS & MAINTENANCE AGREEMENT)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

**WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS  
GAS DEPARTMENTS**



**HINTONBURDICK**  
**HINTON BURDICK HALL & SPILKER PLLC**  
**CPAs & ADVISORS**

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# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## Independent Auditors' Report on the Basic Financial Statements

### MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Gas Departments of Hildale/Colorado City

We have audited the accompanying financial statements for the Gas Departments of Hildale, Utah and Colorado City, Arizona as of June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gas Departments as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006 on our consideration of the Gas Departments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006

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## **GAS DEPARTMENTS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Gas Departments, we offer readers of the Departments' financial statements this narrative overview and analysis of the financial activities of the Departments for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$592,408 at the close of the fiscal year.
- Total net assets increased by \$115,694.
- Total operating revenues increased from \$772,762 in fiscal year 2005 to \$995,877 in fiscal year 2006.
- Total operating expenses for fiscal year 2006 were \$882,099.
- At the end of the current fiscal year, unreserved net assets for the Departments were \$272,739.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of the Gas Departments (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of the Gas Departments' assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track the Departments' financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in the Departments' net assets during the year. The Departments use the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

## GAS DEPARTMENTS

### Statement of Net Assets (Condensed)

	6/30/2005	6/30/2006
Current Assets	\$ 266,369	\$ 395,561
Noncurrent Assets	356,881	337,253
Total Assets	<u>623,250</u>	<u>732,814</u>
Current Liabilities	120,748	122,822
Long-Term Liabilities	25,788	17,584
Total Liabilities	<u>146,536</u>	<u>140,406</u>
Total Net Assets	<u>\$ 476,714</u>	<u>\$ 592,408</u>

### Statement of Revenues, Expenses and Changes in Net Assets (Condensed)

	6/30/2005	6/30/2006
Total Operating Revenues	\$ 772,762	\$ 995,877
Total Operating Expenses	696,007	882,099
Operating Income/(Loss)	76,755	113,778
Non-Operating Revenues/(Expenses)	69,741	1,916
Change in Net Assets	<u>\$ 146,496</u>	<u>\$ 115,694</u>

Operating expenses this year were \$882,099 as shown above. Operating revenues were \$995,877. Operating income as a percentage of operating revenues increased by 1% from the prior year.

The Gas Departments provide propane and natural gas distribution to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During the fiscal year ended June 30, 2006 net assets increased by \$115,694.

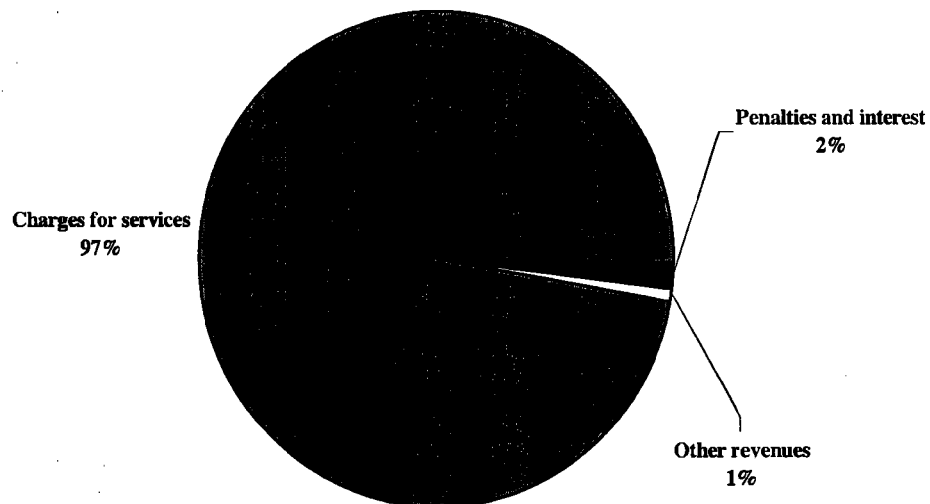
A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

# **GAS DEPARTMENTS' REVENUE BY SOURCE (Combined)**

**Year ended June 30, 2005 and 2006**

	<u>6/30/2005</u>	<u>6/30/2006</u>
REVENUES:		
Charges for services	\$746,604	\$970,296
Penalties and interest	14,976	18,285
Other revenues	<u>11,182</u>	<u>7,296</u>
Total Revenues	<u><u>\$772,762</u></u>	<u><u>\$995,877</u></u>

**Revenues by Source - Current Year**



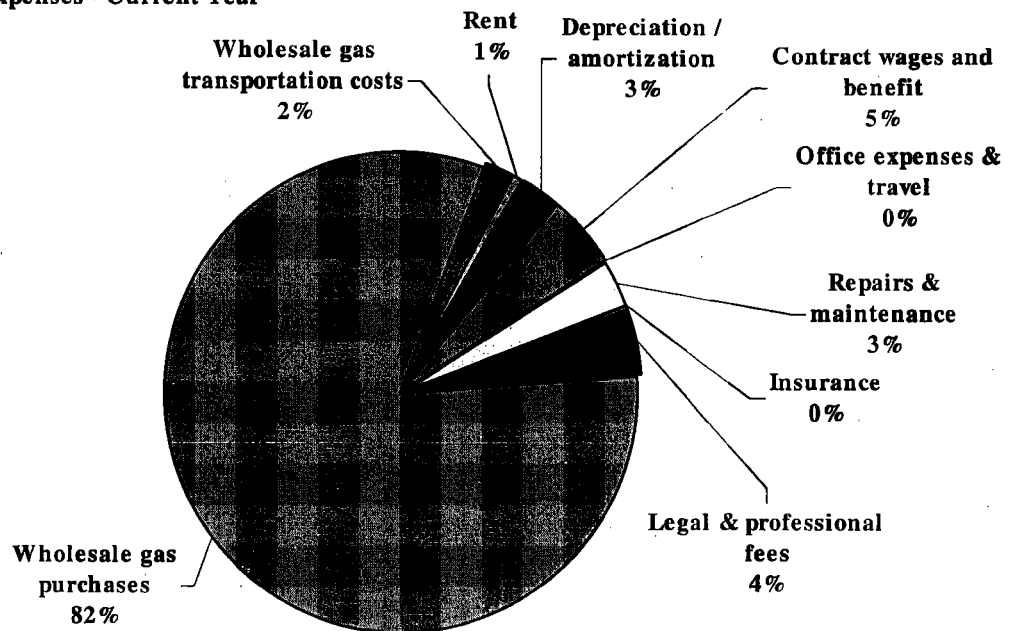


# **GAS DEPARTMENTS' OPERATING EXPENSES (Combined)**

**Year ended June 30, 2005 and 2006**

	<u>6/30/2005</u>	<u>6/30/2006</u>
<b>OPERATING EXPENSES:</b>		
Contract wages and benefit	\$ 42,492	\$ 43,494
Office expenses & travel	7,559	1,526
Repairs & maintenance	42,754	26,243
Insurance	1,064	3,220
Legal & professional fees	13,047	38,000
Wholesale gas purchases	548,810	722,049
Wholesale gas transportation costs	18,523	17,284
Rent	4,005	4,857
Depreciation / amortization	<u>17,753</u>	<u>25,426</u>
 Total Operating Expenses	 <u><u>\$ 696,007</u></u>	 <u><u>\$ 882,099</u></u>

**Operating Expenses - Current Year**



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the Departments are those assets that are used in performance of Departments' functions including vehicles, equipment, buildings and the gas distribution system. At the end of fiscal year 2006, net capital assets of the Departments activities totaled \$337,253.

### **Debt**

At year-end, the Departments had \$25,556 in long-term debt. During the current fiscal year, the Departments total debt decreased by \$7,674. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Departments Budget for fiscal year 2006/2007, the Departments Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2005/2006. There are no large capital projects anticipated for FY 2006/2007.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments finances for all those with an interest in the government's finances and to show the Departments accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**GAS DEPARTMENTS**  
**Statement of Net Assets**  
**June 30, 2006**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2006	June 30, 2005
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 188,957	\$ 8,356	\$ 197,313	\$ 104,804
Receivables	24,241	146,921	171,162	81,880
Receivables - Standard Fuel	15,149	11,937	27,086	79,685
Internal balances	-	-	-	-
Total Current Assets	<u>228,347</u>	<u>167,214</u>	<u>395,561</u>	<u>266,369</u>
<b>Noncurrent assets:</b>				
Property and equipment	145,316	260,014	405,330	399,532
Accumulated depreciation	<u>(24,162)</u>	<u>(43,915)</u>	<u>(68,077)</u>	<u>(42,651)</u>
Total Noncurrent assets	<u>121,154</u>	<u>216,099</u>	<u>337,253</u>	<u>356,881</u>
Total Assets	<u>\$349,501</u>	<u>\$383,313</u>	<u>\$732,814</u>	<u>\$ 623,250</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 24,033	\$ 59,011	\$ 83,044	\$ 32,520
Accrued liabilities	1,464	3,256	4,720	1,101
Standard Fuel payable	15,149	11,937	27,086	79,685
Capital lease payable - current portion	<u>3,986</u>	<u>3,986</u>	<u>7,972</u>	<u>7,442</u>
Total Current Liabilities	<u>44,632</u>	<u>78,190</u>	<u>122,822</u>	<u>120,748</u>
<b>Long-Term Liabilities</b>				
Capital lease payable - net of current portion	<u>8,792</u>	<u>8,792</u>	<u>17,584</u>	<u>25,788</u>
Total Long-Term Liabilities	<u>8,792</u>	<u>8,792</u>	<u>17,584</u>	<u>25,788</u>
Total Liabilities	<u>53,424</u>	<u>86,982</u>	<u>140,406</u>	<u>146,536</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	112,362	207,307	319,669	356,881
Unreserved	<u>183,715</u>	<u>89,024</u>	<u>272,739</u>	<u>119,833</u>
Total Net Assets	<u>\$296,077</u>	<u>\$296,331</u>	<u>\$592,408</u>	<u>\$ 476,714</u>

The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2006**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2006	June 30, 2005
<b>Operating revenues</b>				
Charges for services	\$327,669	\$642,627	\$970,296	\$ 746,604
Penalties and interest	7,752	10,533	18,285	14,976
Other revenues	3,914	3,382	7,296	11,182
Total operating revenues	339,335	656,542	995,877	772,762
<b>Operating expenses</b>				
Contract wages and benefit	21,747	21,747	43,494	42,492
Office expenses & travel	938	588	1,526	7,559
Repairs & maintenance	11,962	14,281	26,243	42,754
Insurance	2,897	323	3,220	1,064
Legal & professional fees	19,000	19,000	38,000	13,047
Wholesale gas purchases	205,267	516,782	722,049	548,810
Wholesale gas transportation costs	17,284	-	17,284	18,523
Rent	2,178	2,679	4,857	4,005
Depreciation/amortization	9,716	15,710	25,426	17,753
Total operating expenses	290,989	591,110	882,099	696,007
<b>Operating income</b>	48,346	65,432	113,778	76,755
<b>Non-operating revenues/(expenses)</b>				
Interest income	1,278	3,124	4,402	1,004
Interest expense and fiscal charges	(1,243)	(1,243)	(2,486)	(9)
Contributed capital	-	-	-	68,746
Total non-operating revenue (expense)	35	1,881	1,916	69,741
Change in net assets	48,381	67,313	115,694	146,496
Total net assets, beginning of year	247,696	229,018	476,714	330,218
Total net assets, end of year	\$296,077	\$296,331	\$592,408	\$ 476,714

The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2006**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2006	June 30, 2005
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 325,325	\$ 555,689	\$ 881,014	\$ 708,085
Cash received from customers, other	11,666	13,915	25,581	26,158
Cash paid to suppliers	(266,864)	(535,666)	(802,530)	(661,839)
Cash received from Colorado City Gas	17,828	-	17,828	(4,125)
Cash paid to Hildale City Gas	-	(17,828)	(17,828)	4,125
Cash flows from operating activities	<u>87,955</u>	<u>16,110</u>	<u>104,065</u>	<u>72,404</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchase of fixed assets	-	(5,798)	(5,798)	(78,180)
Principal paid on long-term debt	(3,837)	(3,837)	(7,674)	(21,872)
Interest paid	(1,243)	(1,243)	(2,486)	(9)
Capital contributions	-	-	-	68,746
Cash flows from capital and related financing activities	<u>(5,080)</u>	<u>(10,878)</u>	<u>(15,958)</u>	<u>(31,315)</u>
<b>Cash flows from investing and other activities:</b>				
Interest on investments	<u>1,278</u>	<u>3,124</u>	<u>4,402</u>	<u>1,004</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>84,153</b>	<b>8,356</b>	<b>92,509</b>	<b>42,093</b>
Cash and cash equivalents, beginning of year	<u>104,804</u>	<u>-</u>	<u>104,804</u>	<u>62,711</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 188,957</u></b>	<b><u>\$ 8,356</u></b>	<b><u>\$ 197,313</u></b>	<b><u>\$ 104,804</u></b>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>				
Net operating income	\$ 48,346	\$ 65,432	\$ 113,778	\$ 76,755
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization	9,716	15,710	25,426	17,753
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(2,344)	(86,938)	(89,282)	(38,519)
(Increase)/Decrease in Standard Fuel receivables	26,128	26,471	52,599	(20,845)
(Increase)/Decrease in due from other funds	17,828	-	17,828	(4,125)
Increase/(Decrease) in accounts payable	14,046	35,979	50,025	16,740
Increase/(Decrease) in accrued liabilities	363	3,755	4,118	(325)
Increase/(Decrease) in Standard Fuel payable	(26,128)	(26,471)	(52,599)	20,845
Increase/(Decrease) in due to other funds	-	(17,828)	(17,828)	4,125
Cash flows from operating activities	<u>\$ 87,955</u>	<u>\$ 16,110</u>	<u>\$ 104,065</u>	<u>\$ 72,404</u>

**Supplementary Schedule of Non-cash Investing and Financing Activities**

Purchase of fixed assets with capital lease	\$ -	\$ -	\$ -	\$ 33,230
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The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

The Gas Distribution Systems, Operations and Maintenance Agreement has not yet been formed by the Town of Colorado City, Arizona and Hildale City, Utah. The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") intend to enter into the "Inter-Governmental Agreement."

Each City has acquired its own gas system which is independently owned and financed and reflected in the funds of the Gas Departments. Each City's ownership percentage in the Gas Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating expenditures are allocated based on actual revenues billed to each City's customers.

The "Gas Board" consists of seven members, three appointed by the Mayor and Council of Hildale City and four members appointed by the Mayor and Council of Colorado City. Each member is entitled to one vote. Budgeting and financing is done by the "Gas Board" and is ratified by each City's council.

**Reporting Entity**

In evaluating how to define the Gas Departments, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Gas Departments are able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Gas Departments.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Gas Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Departments apply all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Departments have elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for gas services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Memorandum Totals**

The columns on the Statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Gas Departments' Board of Trustees adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Gas Departments.

**Accounts Receivable**

Accounts receivable consists solely of amounts due for gas services provided. Management does not consider an allowance for uncollectible accounts receivable necessary or material, and; therefore, no allowance has been recorded.

**Inventories**

Inventories and supplies are considered immaterial and are not recorded.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.



**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Net Assets**

Net assets are the difference between assets and liabilities. Net assets invest in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	7 years
Distribution System	25 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

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**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Gas Departments' follow the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of The Gas Departments' funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Deposits and Investments, Continued**

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The Gas Departments participate in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

State Treasurer's Investment Pool	1,348,830
U.S. Bank	578,533
Wells Fargo Bank	160,933
Zions First National Bank	503,980
Less amounts transferred to Hildale City and other Joint Utilities	<u>(2,394,963)</u>
	<u>\$ 197,313</u>

<u>Cash By Fund</u>	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Equity in Central Treasury	\$ 188,957	\$ 8,356	\$ 197,313

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$881,818 of the Hildale City's central treasury's bank balance of \$1,181,818 was exposed to custodial credit risk because it was uninsured and collateralized.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2. Deposits and Investments, Continued**

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**Investments**

The Money Management Act defines the types of securities authorized as an appropriate investment for the The Gas Departments' and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the The Gas Departments' to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 2. Deposits and Investments, Continued**

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$1,348,830	\$1,348,830	\$ -	\$ -	\$ -
Total Fair Value	<u>\$1,348,830</u>	<u>\$1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Gas Departments' policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Gas Departments' policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$1,348,830	\$ -	\$ -	\$ -	\$1,348,830
Total Fair Value	<u>\$1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,348,830</u>

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assets during the year ended June 30, 2006:

<b>Hildale City:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
System equipment	23,742	-	-	23,742
Distribution system	103,160	-	-	103,160
Machinery & Equipment	1,798	-	-	1,798
Automobiles & Trucks	16,615	-	-	16,615
Total capital assets being depreciated	145,315	-	-	145,315
Less accumulated depreciation for:				
System equipment	(2,344)	(1,907)	-	(4,251)
Distribution system	(11,496)	(4,126)	-	(15,622)
Machinery & Equipment	(329)	(360)	-	(689)
Automobiles & Trucks	(276)	(3,323)	-	(3,599)
Total accumulated depreciation	(14,445)	(9,716)	-	(24,161)
Total capital assets, being depreciated, net	130,870	(9,716)	-	121,154
Hildale City activities capital assets, net	\$ 130,870	\$ (9,716)	\$ -	\$ 121,154

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets, Continued**

<b>Colorado City:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
System equipment	41,537	5,798	-	47,335
Distribution system	196,064	-	-	196,064
Automobiles & Trucks	16,615	-	-	16,615
Total capital assets being depreciated	254,216	5,798	-	260,014
Less accumulated depreciation for:				
System equipment	(7,416)	(4,545)	-	(11,961)
Distribution system	(20,512)	(7,842)	-	(28,354)
Automobiles & Trucks	(277)	(3,323)	-	(3,600)
Total accumulated depreciation	(28,205)	(15,710)	-	(43,915)
Total capital assets, being depreciated, net	226,011	(9,912)	-	216,099
Colorado City activities capital assets, net	\$ 226,011	\$ (9,912)	\$ -	\$ 216,099

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Long-Term Debt**

The following table summarizes the changes to long term debt during the year ended June 30, 2006:

	<u>Balance 6/30/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2006</u>	<u>Current Portion</u>
<b>Hildale City:</b>					
Capital lease payable	\$ 16,615	\$ -	\$ 3,837	\$ 12,778	\$ 3,986
Total Hildale City	16,615	-	3,837	12,778	3,986
<b>Colorado City:</b>					
Capital lease payable	16,615	-	3,837	12,778	3,986
Total Colorado City	16,615	-	3,837	12,778	3,986
Total long-term debt	<u>\$ 33,230</u>	<u>\$ -</u>	<u>\$ 7,674</u>	<u>\$ 25,556</u>	<u>\$ 7,972</u>

Long-term debt at June 30, 2006 is comprised of the following issue:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
<b><u>Capital Lease Payable</u></b>			
Lease payable to GMAC in monthly installments of \$798 through June 2009 at an interest rate of 7.15%.	\$ 12,778	\$ 12,778	\$ 25,556
Total long-term debt	12,778	12,778	25,556
Less current portion	(3,986)	(3,986)	(7,972)
Net long-term debt	<u>\$ 8,792</u>	<u>\$ 8,792</u>	<u>\$ 17,584</u>

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 5.      Capital Lease Payable**

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The Gas Departments entered into a lease agreement with GMAC for the purchase of a 2005 Chevrolet Utility Truck. Equipment capitalized under the lease amounts to \$33,230. Depreciation expense and accumulated depreciation on the capitalized lease is \$6,647 and \$7,199 respectively. The lease requires monthly payments of \$798 through June 2009, including interest of 7.15 percent.

The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ending June 30:

ending June 30,	Total
2007	9,576
2008	9,576
2009	9,576
Thereafter	-
Total remaining lease payments	28,728
Less amount representing interest	(3,172)
Present value of net remaining lease payments	<u>\$ 25,556</u>

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**NOTE 6.      Board of Trustees, Mayors and Councils**

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The Board of Trustees consists of four members appointed by the Town of Colorado City and three members appointed by Hildale City.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.



**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 7.      Standard Fuel Accounts Receivable / Payable**

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Standard Fuel is currently installing the gas lines for both Colorado City and Hildale City customers who request installation. Rather than billing the Customers directly, the Gas Departments have agreed to bill each customer and remit the hook up fees to Standard Fuel upon collection. Thus an amount titled "Receivable - Standard Fuel" has been included on the balance sheet along with a corresponding "Standard Fuel Payable."

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**NOTE 8.      Risk Management**

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The Departments are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The gas distribution system for Hildale City is covered on Hildale City's insurance policy through the Utah Local Government Trust. The gas distribution system for Colorado City is covered on Colorado City's insurance policy through the Arizona Municipal Risk Retention Pool. All employees are employed by Colorado City and covered by Colorado City's insurance policy.

**FEDERAL AND STATE REPORTS**

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# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Gas Departments of Hildale/Colorado City

We have audited the basic financial statements of the Gas Departments of Hildale/Colorado City (the Gas Departments) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Gas Departments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Gas Departments in a separate letter dated August 25, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Gas Departments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Gas Departments in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006

FEB 15 2007

**TWIN CITY POWER JOINT MANAGEMENT,  
OPERATION AND MAINTENANCE AGREEMENT**

**(TWIN CITY POWER)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**



**HINTON BURDICK**

**HINTON BURDICK HALL & SPILKER PLLC**

**CPAs & ADVISORS**

## **TWIN CITY POWER**

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**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**Independent Auditors' Report**

Executive Director and  
Members of the Board of  
Twin City Power

**MEMBERS:**  
**KRIS J. BRAUNBERGER**  
**DEAN R. BURDICK**  
**ROBERT S. COX**  
**BRENT R. HALL**  
**KENNETH A. HINTON**  
**MORRIS J. PEACOCK**  
**MICHAEL K. SPILKER**  
**MARK E. TICHENOR**

We have audited the accompanying basic financial statements of Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) as of June 30, 2006, and for the year then ended. These basic financial statements are the responsibility of Twin City Power's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Twin City Power as of June 30, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of Twin City Power's internal control structure and on its compliance with laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

The supplementary information on bond requirements is presented for purposes of additional analysis and is not a required part of the audited financial statements of Twin City Power. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



The accompanying financial statements have been prepared assuming that Twin City Power will continue as a going concern. As discussed in notes 5, 8, 9, and 10 to the financial statements, Twin City Power, under current conditions, is unable to operate the generation plant, sale wholesale power to consumers, and ultimately make payments on the outstanding revenue bonds. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters have been described in notes 5 and 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006

## **TWIN CITY POWER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Twin City Power, we offer readers of these financial statements a narrative overview and analysis of the financial activities of Twin City Power for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Net assets were a deficit balance of (\$1,956,098) as of June 30, 2006.
- Twin City power went from a positive change in net assets of \$2,231,181 in fiscal year 2005 to a negative change in net assets of (\$1,924,538) in fiscal year 2006. A \$2,950,000 gain from the sale of a gas contract in fiscal year 2005 made up most of the difference.
- The generation fund also sold gas on the open market generating gross revenue of \$113,046.
- Twin City Power failed to make the required principal payments on its outstanding Electric Revenue Bonds, Series 1995 and 1997 during the fiscal year. Total past due principal as of June 30, 2006 was \$1,155,000.
- The net revenue requirement for the fiscal year per the bond covenants is \$3,804,614 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$547,784 which yielded a shortfall of \$3,256,830.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of Twin City Power (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of Twin City Power's assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track Twin City Power's financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in Twin City Power's net assets during the year. Twin City Power uses the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

## POWER DEPARTMENTS

### Statement of Net Assets (Condensed)

	6/30/2005	6/30/2006
Current Assets	\$ 3,379,249	\$ 1,015,690
Noncurrent Assets	18,615,801	19,490,044
Total Assets	<u>21,995,050</u>	<u>20,505,734</u>
Current Liabilities	3,332,655	4,212,876
Noncurrent Liabilities	18,660,000	18,215,000
Other Liabilities	33,956	33,956
Total Liabilities	<u>22,026,611</u>	<u>22,461,832</u>
Total Net Assets	<u>\$ (31,561)</u>	<u>\$ (1,956,098)</u>

### Statement of Revenues, Expenses and Changes in Net Assets (Condensed)

	6/30/2005	6/30/2006
Total Operating Revenues	\$ 5,480,179	\$ 7,600,053
Total Operating Expenses	4,785,181	8,139,199
Operating Income/(Loss)	694,998	(539,146)
Non-Operating Revenues/(Expenses)	1,536,183	(1,385,392)
Change in Net Assets	<u>\$ 2,231,181</u>	<u>\$ (1,924,538)</u>

Operating income as a percentage of operating revenues decreased from 12.6% in fiscal year 2005 to (8.8%) in fiscal year 2006.

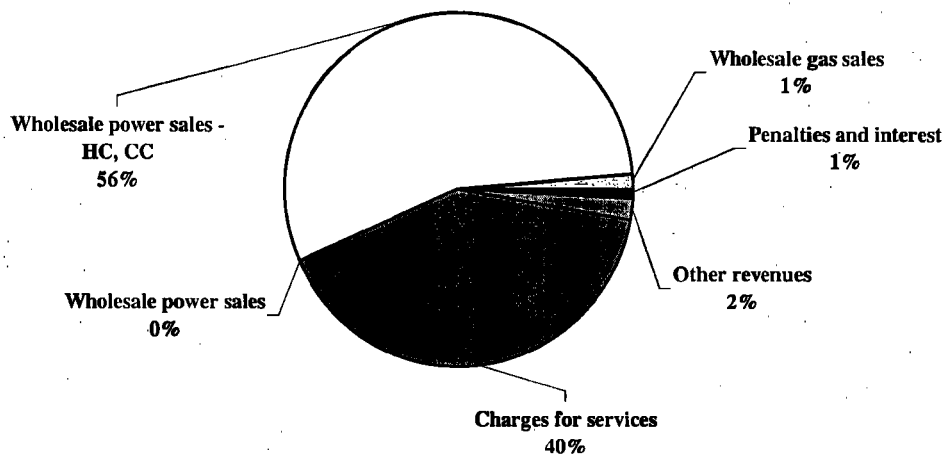
Twin City Power provides electric generation and distribution to customers. Twin City Power's net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During fiscal year 2006, net assets decreased by \$1,924,538.

A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

**POWER DEPARTMENTS REVENUE BY SOURCE (Combined)**  
**Year ended June 30, 2005 and 2006**

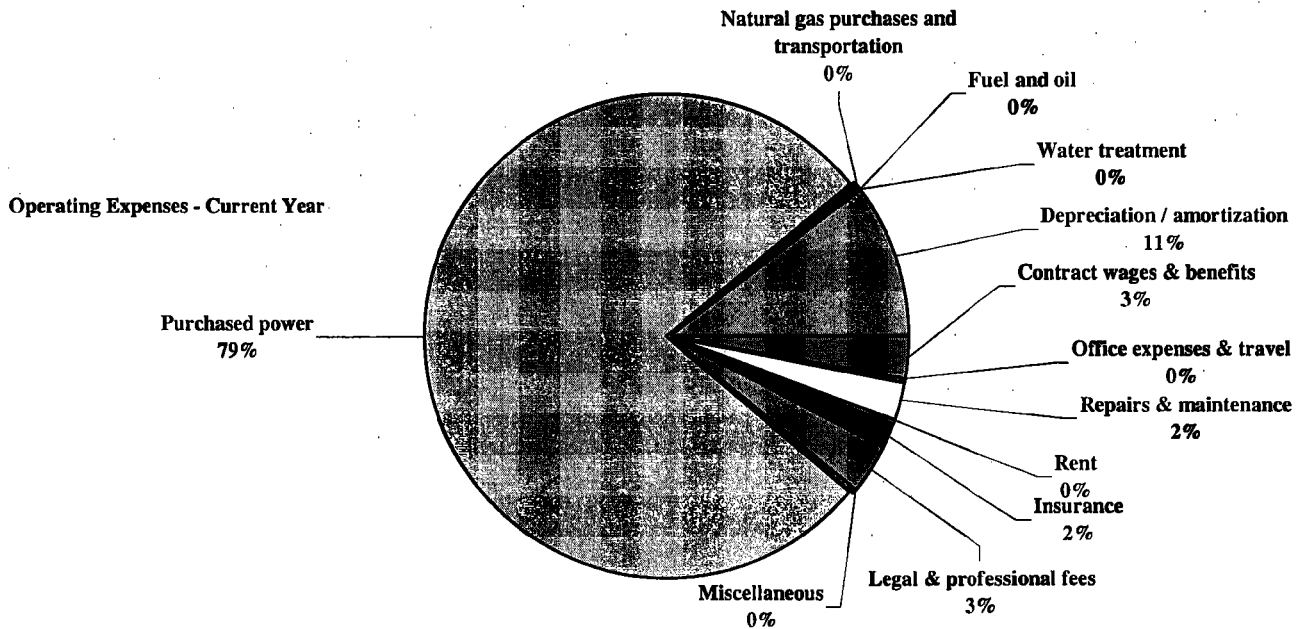
	<u>6/30/2005</u>	<u>6/30/2006</u>
<b>REVENUES:</b>		
Charges for services	\$ 3,129,792	\$ 3,076,068
Wholesale power sales	-	-
Wholesale power sales - HC, CC	122,917	4,204,007
Wholesale gas sales	2,159,166	113,046
Penalties and interest	60,502	49,748
Other revenues	<u>7,802</u>	<u>157,184</u>
<b>Total Revenues</b>	<u><u>\$ 5,480,179</u></u>	<u><u>\$ 7,600,053</u></u>

**Revenues by Source - Current Year**



**POWER DEPARTMENTS OPERATING EXPENSES (Combined)**  
**Year ended June 30, 2005 and 2006**

	<u>6/30/2005</u>	<u>6/30/2006</u>
<b>OPERATING EXPENSES:</b>		
Contract wages & benefits	\$ 306,592	\$ 220,027
Office expenses & travel	34,271	39,131
Repairs & maintenance	309,938	191,736
Rent	21,402	20,217
Insurance	147,188	137,538
Legal & professional fees	292,806	282,809
Miscellaneous	18,239	10,052
Purchased power	1,991,480	6,356,612
Natural gas purchases and transportation	819,480	38,192
Fuel and oil	4,466	8,992
Water treatment	18,679	3,797
Depreciation / amortization	820,640	830,096
<b>Total Operating Expenses</b>	<b><u>\$ 4,785,181</u></b>	<b><u>\$ 8,139,199</u></b>



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of Twin City Power are those assets that are used in performance of Twin City Power's functions including vehicles, equipment, buildings, generation system, and the power distribution system. At the end of fiscal year 2006, net capital assets of the Departments activities totaled \$12,832,787.

### **Debt**

At year-end, the Departments had \$19,815,000 in long-term debt. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Budget for fiscal year 2006/2007, the Power Board and management conservatively projected revenues and expenditures keeping in mind that the future of Twin City Power is uncertain. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2005/2006. There are no large capital projects anticipated for FY 2006/2007.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments finances for all those with an interest in the government's finances and to show the Departments accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**TWIN CITY POWER**  
**Statement of Net Assets**  
**Enterprise Funds**  
**June 30, 2006**

	Distribution		Generation	Combined
	Hildale	Colorado	Hildale	Total
	City	City	City	(Memorandum Only)
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowance)	168,332	262,391	-	430,723
Internal balances	(625,189)	(1,786,178)	2,411,367	-
Due from other governments	127,530	-	-	127,530
Inventory	120,276	180,414	-	300,690
Prepaid expenses	46,950	-	109,797	156,747
Total current assets	(162,101)	(1,343,373)	2,521,164	1,015,690
<b>Noncurrent assets:</b>				
Restricted cash	-	-	5,660,712	5,660,712
Property and equipment	1,079,326	2,292,237	17,028,692	20,400,255
Accumulated depreciation	(443,871)	(982,230)	(6,141,367)	(7,567,468)
Deferred charges	-	-	996,545	996,545
Total noncurrent assets	635,455	1,310,007	17,544,582	19,490,044
<b>Total Assets</b>	<b>\$ 473,354</b>	<b>\$ (33,366)</b>	<b>\$ 20,065,746</b>	<b>\$ 20,505,734</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 23,678	\$ 25,103	\$ 414,764	\$ 463,545
Accrued liabilities	8,127	-	316,297	324,424
Accrued interest	-	-	1,677,550	1,677,550
Customer deposits	39,318	92,214	-	131,532
CCIA payable	-	15,825	-	15,825
Current portion of bonds payable	-	-	1,600,000	1,600,000
Total current liabilities	71,123	133,142	4,008,611	4,212,876
<b>Noncurrent liabilities:</b>				
Bonds payable	-	-	18,215,000	18,215,000
Total noncurrent liabilities	-	-	18,215,000	18,215,000
<b>Other Liabilities:</b>				
Deferred revenue	15,214	18,742	-	33,956
Total Liabilities	86,337	151,884	22,223,611	22,461,832
<b>Net Assets</b>				
Invested in capital assets, net of related debt	635,455	1,310,007	(8,927,675)	(6,982,213)
Restricted for:				
Debt service	-	-	2,009,627	2,009,627
Renewal and replacement	-	-	750,000	750,000
Restructuring	-	-	3,712,399	3,712,399
Unrestricted	(248,438)	(1,495,257)	297,784	(1,445,911)
<b>Total Net Assets</b>	<b>\$ 387,017</b>	<b>\$ (185,250)</b>	<b>\$ (2,157,865)</b>	<b>\$ (1,956,098)</b>

The accompanying notes are an integral part of the financial statements.

**TWIN CITY POWER**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Funds**  
**For the Year Ended June 30, 2006**

	<u>Distribution</u>		<u>Generation</u>	<u>Combined</u>
	<u>Hildale</u>	<u>Colorado</u>	<u>Hildale</u>	<u>Total</u>
	<u>City</u>	<u>City</u>	<u>City</u>	<u>(Memorandum Only)</u>
<b>Operating Revenues</b>				
Charges for services	\$ 1,255,594	\$ 1,820,474	\$ -	\$ 3,076,068
Wholesale power sales - HC, CC	-	-	4,204,007	4,204,007
Wholesale gas sales	-	-	113,046	113,046
Penalties and interest	18,687	31,061	-	49,748
Other revenues	84,098	56,583	16,503	157,184
<b>Total operating revenues</b>	<b>1,358,379</b>	<b>1,908,118</b>	<b>4,333,556</b>	<b>7,600,053</b>
<b>Operating expenses</b>				
Contract wages & benefits	54,583	81,124	84,320	220,027
Office expenses & travel	3,550	4,996	30,585	39,131
Repairs & maintenance	103,541	44,686	43,509	191,736
Rent	5,363	7,333	7,521	20,217
Insurance	5,974	31,691	99,873	137,538
Legal & professional fees	28,366	38,741	215,702	282,809
Miscellaneous	740	1,635	7,677	10,052
Purchased power	1,715,998	2,488,009	2,152,605	6,356,612
Natural gas purchases and transportation	-	-	38,192	38,192
Fuel and oil	-	5,757	3,235	8,992
Water treatment	-	-	3,797	3,797
Depreciation / amortization	53,425	93,326	683,345	830,096
<b>Total operating expenses</b>	<b>1,971,540</b>	<b>2,797,298</b>	<b>3,370,361</b>	<b>8,139,199</b>
<b>Operating income/(loss)</b>	<b>(613,161)</b>	<b>(889,180)</b>	<b>963,195</b>	<b>(539,146)</b>
<b>Non-operating revenues/(expenses)</b>				
Interest income	13,651	17,217	178,860	209,728
Contributed capital	12,218	30,564	-	42,782
Interest expense and fiscal charges	-	-	(1,637,902)	(1,637,902)
<b>Total non-operating revenue (expense)</b>	<b>25,869</b>	<b>47,781</b>	<b>(1,459,042)</b>	<b>(1,385,392)</b>
<b>Change in net assets</b>	<b>(587,292)</b>	<b>(841,399)</b>	<b>(495,847)</b>	<b>(1,924,538)</b>
<b>Total net assets, beginning of year</b>	<b>974,309</b>	<b>656,149</b>	<b>(1,662,018)</b>	<b>(31,560)</b>
<b>Total net assets, end of year</b>	<b>\$ 387,017</b>	<b>\$ (185,250)</b>	<b>\$ (2,157,865)</b>	<b>\$ (1,956,098)</b>

The accompanying notes are an integral part of the financial statements.



**TWIN CITY POWER**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2006**

	Distribution		Generation	Combined
	Hildale	Colorado	Hildale	Total
	City	City	City	(Memorandum Only)
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 1,210,329	\$ 1,814,020	\$ 33,063	\$ 3,057,412
Cash receipts from quasi-external operating transactions	-	-	2,935,312	2,935,312
Cash received from customers, other	102,785	87,644	129,549	319,978
Cash paid to suppliers	(150,596)	(43,591)	(2,642,600)	(2,836,787)
Cash payments for quasi-external operating transactions	(1,145,555)	(1,789,757)	-	(2,935,312)
Cash paid to employees	(30,614)	(85,533)	(84,319)	(200,466)
Cash flows from operating activities	(13,651)	(17,217)	371,005	340,137
<b>Cash flows from capital and related financing activities:</b>				
Purchase of fixed assets	(12,218)	(30,564)	(80,323)	(123,105)
Interest paid	-	-	(1,161,380)	(1,161,380)
Capital contributions	12,218	30,564	-	42,782
Cash flows from capital and related financing activities	-	-	(1,241,703)	(1,241,703)
<b>Cash flows from investing and other activities:</b>				
Interest on investments	13,651	17,217	178,860	209,728
Cash flows from investing and other activities	13,651	17,217	178,860	209,728
<b>Net increase (decrease) in cash and cash equivalents</b>	-	-	(691,838)	(691,838)
Cash and cash equivalents, beginning of year	-	-	6,352,550	6,352,550
<b>Cash and cash equivalents, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,660,712</u>	<u>\$ 5,660,712</u>
<b>Reconciliation of operating income to cash flows from operating activities:</b>				
Net operating income/(loss)	\$ (613,161)	\$ (889,180)	\$ 963,195	\$ (539,146)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization	53,425	93,326	683,345	830,096
Noncash items included in operating income (loss)	46,227	69,340	-	115,567
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	9,544	(6,454)	33,063	36,153
(Increase)/Decrease in due from other governments	(54,809)	-	-	(54,809)
(Increase)/Decrease in inventory	11,335	17,002	-	28,337
(Increase)/Decrease in prepaids	(43,666)	-	(35,332)	(78,998)
Increase/(Decrease) in accounts payable	(16,958)	4,906	(4,572)	(16,624)
Increase/(Decrease) in accrued liabilities	23,969	(4,409)	1	19,561
Increase/(Decrease) due to / from other funds	570,443	698,252	(1,268,695)	-
Cash flows from operating activities	<u>\$ (13,651)</u>	<u>\$ (17,217)</u>	<u>\$ 371,005</u>	<u>\$ 340,137</u>
<b>Supplementary Schedule of Non-Cash Investing and Financing Activities:</b>				
Amortization of bond discounts to interest expense	\$ -	\$ -	\$ (36,299)	\$ (36,299)

Then accompanying notes are an integral part of the financial statements

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) was formed on April 29, 1994 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Electric Distribution Systems Management Operation and Maintenance Agreement."

Each City has acquired its own electric system which is independently owned and financed and reflected in the funds of Twin City Power. Each City's ownership percentage in Twin City Power is based upon their original investments in their City's system and subsequent specific contributions. Common operating revenues and expenditures are allocated on the basis of the proportion that the annual energy sales to each City's electric customers bears to the total annual energy sales.

The "Power Board" consists of seven Members, three appointed by the Mayor and Council of Hildale City and four Members appointed by the Mayor and Council of Colorado City. Each Member is entitled to one vote. Budgeting and financing is done by the "Power Board" and merely ratified by each City's Council.

**Reporting Entity**

In evaluating how to define Twin City Power, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether Twin City Power is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Power Departments.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Power Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Department applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Twin City Power has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for electric services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Twin City Power Board adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting, except that depreciation was not budgeted.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by Twin City Power.

**Accounts Receivable**

Accounts receivable consists mainly of amounts due for electrical services provided. Twin City Power maintains customer deposits to cover anticipated uncollectible accounts. An allowance for uncollectible accounts has also been accrued.

**Inventories**

Inventories in the electric fund consist principally of materials used in the repair and maintenance of the systems and are valued at cost and accounted for on a first-in, first-out basis.

**Wages and Salaries**

All employees are employed by Colorado City. Twin City Power reimburses Colorado City for wages, payroll taxes and benefits.

**Taxes**

Property taxes are collected by each city's respective county and remitted to the cities (see each city's respective financial statement, footnotes for property tax calendars and procedures). The cities then remit taxes collected for debt service to their respective electric utility funds.

**Cash and Cash Equivalents**

Twin City Power cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

---

**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Net Assets**

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Generation System	25 -30 years
Distribution System	25 -30 years
Gas Lines	22 years
Vehicles & Equipment	5-10 years
Office Furniture & Equipment	5-7 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in net income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Material interest expense is capitalized net of interest earnings on temporary investment of tax-exempt funds in accordance with Financial Accounting Standards number 62.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

Twin City Power follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Twin City Power funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Twin City Power participates in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

State Treasurer's Investment Pool	\$ 1,348,830
U.S. Bank	578,533
Wells Fargo Bank	160,933
Zions First National Bank	503,980
Less amounts transferred to Hildale City and other Joint Utilities	(900,868)
	<u>\$ 1,691,408</u>

Twin City Power's equity in Hildale City's Central Treasury and cash held directly by Twin City Power By fund at fiscal year end is as follows:

Cash By Fund	Hildale City	Colorado City	Hildale Generation	Total
Equity in Central Treasury	\$ -	\$ -	\$ 1,691,408	\$ 1,691,408
Bond Escrow Account	-	-	3,712,399	3,712,399
Zions First National Bank	-	-	256,905	256,905
Total Cash and Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,660,712</u>	<u>\$ 5,660,712</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Deposits and Investments (Continued)**

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**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$881,818 of the Hildale City's central treasury's bank balance of \$1,181,818 was exposed to custodial credit risk because it was uninsured and collateralized.

Twin City Power does not have a formal policy for custodial credit risk. The bank balances of deposits held by Twin City Power directly at June 30, 2006 totals \$3,969,303. Of these bank balances, \$3,869,303 was exposed to custodial credit risk because it was uninsured and collateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for Twin City Power and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Twin City Power to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 2. Deposits and Investments (Continued)**

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$1,348,830	\$1,348,830	\$ -	\$ -	\$ -
Total Fair Value	<u>\$1,348,830</u>	<u>\$1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Twin City Power's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Twin City Power's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.



**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 2. Deposits and Investments (Continued)**

At June 30, 2006 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$1,348,830	\$ -	\$ -	\$ -	\$1,348,830
Total Fair Value	<u>\$1,348,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,348,830</u>

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assts during the year ended June 30, 2006:

Hildale City:	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital assets not being depreciated:				
Construction in Progress	\$ 46,227		\$ (46,227)	\$ -
Total capital assets not being depreciated	<u>46,227</u>	<u>-</u>	<u>(46,227)</u>	<u>-</u>
Capital assets being depreciated:				
Machinery and equipment	50,543	-	-	50,543
Automobile and trucks	16,798	-	-	16,798
Improvements other than buildings	999,766	12,219	-	1,011,985
Total capital assets being depreciated	<u>1,067,107</u>	<u>12,219</u>	<u>-</u>	<u>1,079,326</u>
Less accumulated depreciation for:				
Machinery and equipment	(20,796)	(11,517)	-	(32,313)
Automobile and trucks	(12,813)	(1,469)	-	(14,282)
Improvements other than buildings	(356,837)	(40,439)	-	(397,276)
Total accumulated depreciation	<u>(390,446)</u>	<u>(53,425)</u>	<u>-</u>	<u>(443,871)</u>
Total capital assets, being depreciated, net	<u>676,661</u>	<u>(41,206)</u>	<u>-</u>	<u>635,455</u>
Hildale City activities capital assets, net	<u>\$ 722,888</u>	<u>\$ (41,206)</u>	<u>\$ (46,227)</u>	<u>\$ 635,455</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets (Continued)**

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2006</u>
<b>Colorado City:</b>				
Capital assets not being depreciated:				
Construction in Progress	\$ 69,340		\$ (69,340)	\$ -
Total capital assets not being depreciated	<u>69,340</u>	<u>-</u>	<u>(69,340)</u>	<u>-</u>
Capital assets being depreciated:				
Machinery and equipment	28,403	-	-	28,403
Automobile and trucks	104,993	-	-	104,993
Improvements other than buildings	<u>2,128,277</u>	<u>30,564</u>	<u>-</u>	<u>2,158,841</u>
Total capital assets being depreciated	<u>2,261,673</u>	<u>30,564</u>	<u>-</u>	<u>2,292,237</u>
Less accumulated depreciation for:				
Machinery and equipment	(17,800)	(3,835)	-	(21,635)
Automobile and trucks	(92,758)	(4,459)	-	(97,217)
Improvements other than buildings	<u>(778,346)</u>	<u>(85,032)</u>	<u>-</u>	<u>(863,378)</u>
Total accumulated depreciation	<u>(888,904)</u>	<u>(93,326)</u>	<u>-</u>	<u>(982,230)</u>
Total capital assets, being depreciated, net	<u>1,372,769</u>	<u>(62,762)</u>	<u>-</u>	<u>1,310,007</u>
Colorado City activities capital assets, net	<u>\$ 1,442,109</u>	<u>\$ (62,762)</u>	<u>\$ (69,340)</u>	<u>\$ 1,310,007</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 3. Capital Assets (Continued)**

<b>Hildale Generation:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Machinery and Equipment	29,725	-	-	29,725
Generation Plant	3,014,747	-	-	3,014,747
Generation Sets	7,826,650	-	-	7,826,650
Transmission Lines	2,773,238	80,323	-	2,853,561
Gas Lines	3,304,009	-	-	3,304,009
Total capital assets being depreciated	16,948,369	80,323	-	17,028,692
Less accumulated depreciation for:				
Machinery and Equipment	(14,666)	(4,220)	-	(18,886)
Generation Plant	(1,010,059)	(104,249)	-	(1,114,308)
Generation Sets	(2,431,581)	(313,066)	-	(2,744,647)
Transmission Lines	(764,104)	(96,428)	-	(860,532)
Gas Lines	(1,252,812)	(150,182)	-	(1,402,994)
Total accumulated depreciation	(5,473,222)	(668,145)	-	(6,141,367)
Total capital assets, being depreciated, net	11,475,147	(587,822)	-	10,887,325
Hildale Generation capital assets, net	\$11,475,147	\$ (587,822)	\$ -	\$ 10,887,325

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
<b>Hildale Generation:</b>					
Electric Revenue Bonds					
Series 1997	\$ 1,310,000	\$ -	\$ -	\$ 1,310,000	\$ 100,000
Electric Revenue Bonds					
Series 1995	18,505,000	-	-	18,505,000	1,500,000
Total Long-Term Debt	<u>\$ 19,815,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,815,000</u>	<u>\$ 1,600,000</u>

Long-term debt consists of the following at June 30, 2006:

	Hildale City	Colorado City	Total
Electric Revenue Bonds, Series 1997, due in annual principal installments ranging from \$15,000 to \$190,000, bearing interest at 7.75%, payable semi-annually, maturing September 1, 2025.	\$ 1,310,000	\$ -	\$ 1,310,000
Electric Revenue Bonds, Series 1995, due in annual principal installments ranging from \$210,000 to \$1,805,000, bearing interest at 7.00 - 8.00%, payable semi-annually, maturing September 1, 2025.	<u>18,505,000</u>	<u>-</u>	<u>18,505,000</u>
	19,815,000	-	19,815,000
Less Current Portion	<u>(1,600,000)</u>	<u>-</u>	<u>(1,600,000)</u>
Total Long-Term Debt	<u>\$ 18,215,000</u>	<u>\$ -</u>	<u>\$ 18,215,000</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Long-Term Debt (Continued)**

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Debt service requirements to maturity are as follows:

Year ended June 30,	Hildale City	
	Principal	Interest
2007	\$ 1,600,000	1,473,691
2008	430,000	1,439,596
2009	470,000	1,408,677
2010	515,000	1,365,158
2011	540,000	1,328,839
2012-2016	3,555,000	5,923,952
2017-2021	5,180,000	4,346,247
2022-2026	7,525,000	2,126,629
Total	<u>\$ 19,815,000</u>	<u>\$ 19,412,789</u>

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**NOTE 5. Reserved Retained Earnings - Bond Reserves - Restructuring**

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Reservations are used to indicate that a portion of net assets that is not available for appropriation or expenditure, or is legally segregated for a specific future use. At June 30, 2006, Twin City Power's debt related reserves and restructuring related reserves are as follows:

	Required <u>Reserves</u>	Restricted Cash <u>Balance</u>	Restricted <u>Net Assets</u>
Hildale City Generation Fund – Bond Reserves	\$ 2,759,255	\$ 1,948,313	\$ 2,759,255
Hildale City Generation Fund – Restructuring Reserves*	\$ 3,712,399	\$ 3,712,399	\$ 3,712,399

\*Effective April 1, 2005, Twin City Power sold its gas contract to El Paso Corporation (See note 12). As part of the agreement, the Bondholders and Management of Twin City Power agreed to transfer, into an escrow account, the proceeds from the sale of the contract as well as the net proceeds from a portion of the natural gas sales on the open market. As a result, \$3,577,660 was transferred to an escrow account and began to accrue interest. The funds will remain in the escrow account, earning interest, until the Board Members and the Bond Holders come to a consensus on restructuring efforts.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Board of Directors, Mayors and Councils**

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The Board of Directors consists of three members appointed by Hildale City and four members appointed by the Town of Colorado City.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.

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**NOTE 7. Contributed Materials and Services**

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Twin City Power records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services (labor) as no objective basis is available to measure the value of such services. Nevertheless, several volunteers donated significant amounts of their time towards acquiring the electrical distribution systems and forming Twin City Power.

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**NOTE 8. Power Sales Contracts - Concentration of Risk**

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Twin City Power entered into a firm power sales agreement with the City of St. George, wherein Twin City Power agreed to sell firm power and the associated energy to the City of St. George. The agreement was effective July 1, 1994 through June 30, 2024. However, this power sales agreement was terminated effective July 15, 2003. Actual power sales to St. George City under contract were terminated in December of 2002. Total sales to St. George City for fiscal year 2002 were \$2,847,439 and \$1,131,000 for fiscal year 2003. During fiscal year 2004, Twin City Power generated power for St. George City during July and August to meet peak demands. Wholesale power sales to St. George City for fiscal year 2004 amounted to \$ 209,447. Twin City Power did not sale power to St. George City in fiscal year 2005 or 2006.

Hildale City and Colorado City entered into a power sales contract on December 15, 1995, wherein Colorado City agrees to purchase energy generated by Hildale City. The charge to Colorado City for capacity and energy is Colorado City's pro rata share of the operation and maintenance expenses and capital costs during the period, after the application of all other revenues. During the current fiscal year, Colorado City was charged \$2,488,009 (59.18%) and the Hildale City Distribution fund was charged \$1,715,998 (40.82%). Amounts due to the Hildale City generation fund by the Colorado City and Hildale City distribution funds are \$1,786,178 and \$625,189 respectively.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9.      Bond Covenants – Disclosures – Defaults**

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The City's Power fund **net revenues for the current fiscal year failed to meet the requirement** set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond resolutions/covenants.

The net revenue requirement for the current fiscal year is \$3,804,614 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$1,266,533 which yields a **shortfall of \$2,538,081**.

As discussed in Note 8 and Note 10, as of July 15, 2003, Twin City Power's **firm power sales agreement with St. George City was terminated**. The cancellation of this contract is an event of default under the bond resolutions.

During fiscal year 2006, Twin City Power **failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997** shown in Note 4. Total principal past due as of June 30, 2006 was \$1,155,000. **Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through the issuance date of the financial statements**. Non-payment constitutes default under both bond resolutions.

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**NOTE 10.      Natural Gas Price Issues**

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Natural gas costs are have risen substantially in recent years. Expectations of the generation plant assumed natural gas costs at under \$2.00 per decatherm. Natural gas pricing has been as high as \$7.00 per decatherm and higher throughout some of the winter months for fiscal year 2006.

As a result of high gas costs, the City has not been able to continue generating power under the St. George City contract. As discussed in Note 8, Twin City Power's contract with St. George City was irrevocably cancelled.

Rolls Royce terminated its long-term maintenance agreement with the generation plant in the prior year. They terminated the agreement due to generation shutdowns and unacceptable natural gas prices. Currently, any maintenance and parts for the generation plant's turbine generators are the sole responsibility and cost of Twin City Power.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 11.     Risk Management**

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**Risk Management**

Twin City Power is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Colorado City and Hildale City maintain insurance for Twin City Power's general liability, auto liability, employee dishonesty and worker's compensation through Utah Local Government Trust, Arizona Municipal Risk Retention Pool, Worker's Compensation Fund of Utah, and the Arizona State Worker's Compensation Fund. Insurance coverage for power plant property and business interruption are maintained through Liberty Surplus Insurance Company.

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**NOTE 12.     Sale of Gas Contract**

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On December 28, 1995, Twin City Power entered into an agreement with Conoco, Inc. (subsequently purchased by CIG Merchant Company, Inc.) to purchase natural gas at a fixed rate. This contract, having significant value in the 2005 winter gas market, was sold to El Paso Corporation effective April 1, 2005 for \$2,950,000. The gain resulting from the sale of the contract was reported in the non-operating portion of the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005.

Upon sale of the contract, the proceeds were transferred to an escrow account being held for future restructuring purposes by the Management of Twin City Power. In addition to the proceeds from the sale, a portion of the natural gas sales made by Twin City Power to CIMA Energy, LTD. were also transferred to the escrow account (See note 5). The Series 1995 and 1997 Bondholders have consented to this process and the two parties are currently in deliberations concerning the future of the Hildale City Power Generation Fund.



**SUPPLEMENTARY SCHEDULES**

**TWIN CITY POWER**  
**Supplementary Information on Bond Requirements**  
**June 30, 2006**

The Series 1995 and 1997 Electric System Bond Resolutions set forth certain covenants and restrictions. The City is not in compliance with all covenants and restrictions for the Electric System Bond Resolution requirements see Note 9.

Additional disclosures required by the Resolutions are:

	Total Billings 2005-2006	Average Per Month	Average Per Customer	Total Customers
CCA Residential	\$ 1,359,443.58	\$113,286.97	\$ 2,296.36	592
CCA Commercial	336,586.31	28,048.86	3,698.75	91
CCA Public	382,205.49	31,850.46	31,850.46	12
Total CCA Billings	<u>\$ 2,078,235.38</u>	<u>\$173,186.29</u>	<u>\$ 2,990.27</u>	<u>695</u>
HCU Residential	\$ 790,190.26	\$ 65,849.19	\$ 3,039.19	260
HCU Commercial	583,837.49	48,653.12	8,713.99	67
HCU Public	119,959.03	9,996.59	14,994.88	8
Total HCU Billings	<u>\$ 1,493,986.78</u>	<u>\$124,498.90</u>	<u>\$ 4,459.66</u>	<u>335</u>

Insurance coverage in effect at June 30, 2006:

Type	Policy Number	Effective	Expires	Limits
<b>Coverage with Utah Local Governments Trust:</b>				
General Liability	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Property	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Automobile physical damage	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Uninsured motorist	11720-GL351-2004	12/15/2004	Continuous	\$ 65,000
<b>Coverage with Liberty Surplus Insurance Corporation:</b>				
Power Plant Property	5D117585004	4/1/2005	4/1/2006	\$ 10,874,200
Business Interruption	5D117585004	4/1/2005	4/1/2006	\$ 4,669,048

**FEDERAL AND STATE REPORTS**



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Executive Director and  
Members of the Board of Trustees of  
Twin City Power

MEMBERS:  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the basic financial statements of Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Twin City Power's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Twin City Power in a separate letter dated August 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin City Power's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance, which we have reported to management of Twin City Power in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
August 25, 2006



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## Findings and Recommendations

Executive Director and  
Members of the Board of Trustees of  
Twin City Power

### MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

During our audit of the funds of Twin City Power Joint Management, Operation & Maintenance Agreement (Twin City Power) for fiscal year ended June 30, 2006, we noted that management has made improvements to the accounting and budgeting system and we wish to commend management and the board on their achievements. However, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen Twin City Power's accounting system and control over its assets.

Since Twin City Power's accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which will be made available to each participating board.

It has been a pleasure to be of service to Twin City Power this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*HintonBurdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC

August 25, 2006